Please check against delivery

UN-OHRLLS

Statement by

Ms. Fekitamoeloa Katoa 'Utoikamanu,

High Representative

and

Under-Secretary-General

for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

at the

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

Side event on

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

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

Trusteeship Council Chamber, UN Headquarter

Moderator,
Excellencies,
Distinguished guests,
Ladies and gentlemen,

First, thank you for having me with you - the topic of our session is highly relevant to the sustainable and climate resilient path of the countries OHRLLS is your voice for!

It is not this distinguished audience that I need to convince of the critical role SMEs have played and will have to play in development.

It is a proven fact that about 50 per cent of employment in the developing world is generated by SMEs;

It is a proven fact that SMEs boost growth which in turn translates directly into higher earnings for low income households.

In short, SMEs contribute to growth, help diversify the economy, provide innovation, deliver goods to the bottom of the pyramid and greatly help empower youth and women.

It is also encouraging to see how a body of new research is beginning to transform the manner in which development partners support the critical growth on SMEs in developing countries.

My concern today is with the LLDCs - the countries, the people most at risk of being left behind in our strive to make Agenda 2030 happen.

Both the Addis Ababa Action Agenda and subsequently the SDGs call for multi-faceted action to build strong SMEs. Action areas concern access to finance, skills development, knowledge and technology transfer and enhancing the creation of linkages with regional and global value chains.

I have to add that the Vienna Programme of Action, which is an integral part of the 2030 Agenda, equally stresses the importance of SMEs as a tool for integrating the LLDCs into regional and global trade and value chains and their role in structural economic transformation of the LLDCs.

Excellencies,

LLDCs face several complex challenges.

First, LLDCs continue to be heavily reliant on their natural resource-based commodities trade. A trade with very little value addition.

This is demonstrated by the overall average trade concentration index of the LLDCs which has remained at around 0.3 percent since 2013.

The value-added of the manufacturing sector, - a sector considered essential for employment generation, economic growth and transformation - has decreased from 8.9 to 6.9 per cent of GDP from 2000 to 2015.

In short, the LLDCs are highly vulnerable to the ever more rapid fluctuations in commodities markets. Transportation costs are extremely high making the picture even more complex.

The linkages between the commodities and the industrial and service sectors, where they exist, are at best weak and there is very little value addition.

We all do recognize the urgent need to support LLDCS in measures capable of transforming the LLDCs' economies to reduce reliance on natural resource based export commodities.

We all do recognize that we must support structural economic transformation capable of mitigating the high cost of geographical disadvantage, external shocks with the aim to create lasting jobs ultimately leading to poverty reduction and inclusive and sustainable growth.

SMEs have a key role to play towards achieving this.

The question then is, how do we get there? That precisely is the focus of our meeting- the ACTION part.

My strong hope is that the meeting today will focus on answering this question. We can be guided by existing, inspirational practices such as India's digital finance models for lending to small businesses, advances made in fintech to reach out to communities, or Tanzania's Development Vision 2025 highlighting SMEs given their 27 per cent share in GDP and incidentally with some 50 per cent of businesses owned by women!

We also know that policy measures pertaining to tax reform, regulatory reforms to lower SME entrance barriers, streamlined processes so that small business can focus on work rather than paper work, support to business practice building and access to finance are key measures.

I indeed hope that our dialogue today will identify key policy options that we can work on as partners and jointly implement with the LLDCs to build resilient and competitive SME sectors.

Excellencies,

It is in this spirit that I wish to highlight three policy aspects to look into: access to finance, building reliable and appropriate infrastructure and ensuring access by all to the potential SMEs offer for development.

The critical challenge for SME development in developing countries and in particular the LLDCs is access to financial services and investment capital.

Established financial institutions are all too often neither equipped nor prepared to finance SMEs due to their perceived risk.

As I mentioned earlier, we have a body of experiences to look into so that financing mechanisms and products are developed more systematically and in a targeted manner to ensure easier access to finance by the SMEs.

Governments and donor countries can achieve this through , inter alia, guarantee schemes.

Foreign direct investment (FDI) also has a role to play. Numerous studies exist on how to leverage FDI in multiple ways for SME development given what FDI can do beyond economic growth in areas such as skill building, professional education and even health services. FDI can enhance local SME development through systematic development of linkages between foreign affiliates and domestic SMEs.

Such beneficial FDI-SME linkages depend though heavily on the capacity of a host country to attract a substantial quantity and quality of FDI.

The FDI flow to the LLDCs has been comparatively low to the FDI flow going to coastal counterparts. All partners may wish to look at investment preference regimes to encourage corporations to invest in LLDCs.

Now, we all do know it is one thing to produce but you have to get your production to market and, on the other hand, a minimum basic, reliable physical infrastructure is needed to produce.

Reliable electricity, transportation and logistics systems and ICT connectivity are thus key factors in SME development. Attaining a standard of infrastructure compatible with structural transformation including through SME measures is a major challenge in all the LLDCs.

The cost of reliable electricity supply, the state by times of basic road and transport infrastructure, the often prohibitive ICT access costs all need to be looked at. Again, broadband costs are higher in the LLDCs than in the coastal countries located closer to marine communication cables.

So, we must address these infrastructure gaps. To me infrastructure development goes hand in hand with measures for SME development.

My final point concerns the gender dimension and SMEs. As I mentioned, some 50 per cent of SMEs in Tanzania are women owned and are in the agricultural sector. Enabling women to participate in SME development should be of concern to all of us.

We must invest in building and/or upgrading their technical and managerial skills. Data for small loan repayment have shown how women are highly reliable investment partners and how given the chance they are main drivers in local development! Women account for an important share of private sector activity and contribute most to poverty reduction. The gender dimension needs to be mainstreamed throughout SME policies, development strategies and programs.

In conclusion, allow me to reiterate once more that structural economic transformation will be crucial to fully include the LLDCs into sharing what we aim for in Agenda 2030 : the participation of everybody, everywhere into a sustainable and climate resilient development path.

SMEs have a key role to play in overcoming the stacked deck of cards called landlockedness, high vulnerability to external shocks and poverty governments and the people of the LLDCs try to overcome.

I thank you.