Summary Report

for the side event on

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

held during

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

on 25 April 2018, New York
INTRODUCTION

The side event on *Unlocking the potential of the Small and Medium-Sized Enterprises (SMEs) to accelerate structural economic transformation in the LLDCs and the achievement of the SDGs* was held on 25 April 2018 during the FFD Forum. It was jointly organized by UN-OHRLLS, the Permanent Mission of Paraguay (Chair of the LLDCs), UNCTAD, International Trade Centre (ITC) and International Chamber of Commerce (ICC) and Common Fund for Commodities. The main aim of the side event was to provide a platform to discuss how the Small and Medium-Sized Enterprises (SMEs) in LLDCs can be strengthened to enhance their contribution to economic growth, structural economic transformation, the achievement of the SDGs and the goals of the Vienna Programme of Action. The proceedings of the side event were moderated by Mr. Sandagdorj Erdenebileg, Chief, Policy Coordination, Development, Monitoring and Reporting Service, UN-OHRLLS.

PROCEEDINGS

I. Remarks by Ms. Fekitamoeloa Katoa ‘Utoikamanu, Under-Secretary-General, and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)

Ms. Fekitamoeloa Katoa ‘Utoikamanu, Under-Secretary-General, and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) delivered the opening remarks. In her remarks USG ‘Utoikamanu recognised that small and medium-sized enterprises (SMEs) were responsible for a large share of employment opportunities in most economies as they account for approximately 90 percent of all global businesses and employ nearly 60 percent of the global workforce. She indicated that SMEs can significantly contribute to building a sound and competitive economy, wealth creation, employment generation, combating poverty and exclusion and achieving sustainable development. She noted that it was necessary that efforts be aimed at achieving structural economic transformation prioritize the SME Sector.

She noted that the SDGs and the Addis Ababa Action Agenda call for multiple interventions to build strong SMEs, notably in the areas of access to finance and skills development; knowledge and technology transfer; and by creating linkages with regional and global value chains. She also noted that the Vienna Programme of Action recognizes the importance of SMEs in integrating the LLDCs into global trade and value chains and their role in achieving structural economic transformation in the LLDCs.

She highlighted the challenges faced by the LLDCs, including their heavy reliance on the natural resource-based commodities with very little value addition, which makes them vulnerable to challenges of commodities markets and high transportation costs. She emphasised that it was urgent to decrease LLDCs’ economic reliance on export
commodities, and she pointed out that SMEs have a key role to play towards achieving structural transformation in the LLDCs.

She recognised that foreign direct investment (FDI) can enhance local SME development through linkages between foreign affiliates and domestic SMEs, but noted that the creation of beneficial FDI-SME linkages depends on the capacity to attract a substantial quantity and quality of FDI for the host country. She noted that FDI to the LLDCs has been relatively low compared to that of their coastal counterparts and she called on development partners to adopt investment preference regimes to encourage their corporations to invest in the LLDCs. She also called on multinational corporations and large companies to partner with the SMEs in LLDCs across the manufacturing and supply chains.

She highlighted that the most pressing challenge for SMEs in developing countries, including LLDCs, is securing access to financial services and investment capital. She noted that the financial institutions are usually unwilling to finance SMEs due to perceived risks. She therefore emphasised that the financial institutions and products need to be developed in a targeted manner to ensure easy access to finance by SMEs. She also highlighted the importance of reliable electricity, good transportation and logistics systems and ICT connectivity in facilitating industrialisation and she therefore pointed out that addressing infrastructure gaps and the high costs of ICT and energy services need to be given due consideration.

She emphasised the need to enhance women’s ability to participate in SME development and called for mainstreaming the gender dimension throughout SME development strategies and programs.

II. Remarks by Mr. Sebastian Ortiz, Director for Multilateral Organizations, Ministry of Foreign Affairs of Paraguay, Chair of the Group of the LLDCs

Mr. Sebastian Ortiz pointed out that there was no doubt that micro, small and medium enterprises (SMEs) play a key role in the world economy and contribute substantially to increase output, generate jobs and reduce inequality in income distribution. He emphasized that SMEs are vehicles of social inclusion as they provide opportunities for young entrepreneurs and women to participate in economic activities. Also, MSMEs are an effective tool for poverty alleviation.

He recognised that there was a global consensus about the importance of internationalizing MSMEs and building a global consensus in areas like e-commerce, access to finance; skills, knowledge and technology transfer. He noted that the VPoA recognises the importance of MSMEs in integrating LLDCs into global trade and their role in achieving structural economic transformation. He also noted that the VPoA also mandates that LLDCs promote policies in favour of SMEs by fostering trade competitiveness, building spaces for private-public dialogue, fostering technical and vocational education, training and capacity-building, and creating market linkages through business-to-business platforms.
He pointed out that his presentation would focus on one aspect that they considered crucial for MSMEs’ development: e-commerce. He noted that digital technology is transforming the global economy and that this transformation presented new opportunities to promote inclusive economic growth, including connecting rural to urban economies; opening new channels of trade for landlocked countries; providing micro, small and medium-sized enterprises (MSMEs) with access to a global consumer base; and facilitating cross-border trade in services, which was previously considered technically infeasible. He highlighted that the growth of e-commerce promised to increase export opportunities for MSMEs by connecting producers and consumers located at great distances at a comparatively low cost, giving them a global presence previously reserved for large multinational companies.

He noted with concern that MSMEs still have a smaller online presence than large companies. He recognised that the first obstacle to electronic sales is affordability and access to communications infrastructure and also noted that although there is a gap in Internet connectivity between small and large enterprises in all countries, this gap is especially larger in LLDCs. He emphasised that it was important that these challenges are addressed to ensure that LLDCs and the MSMEs in LLDCs can also take advantage of the opportunities of the digital economy and e-commerce. He indicated that LLDCs acknowledge the need to explore policies that encourage growth in cross-border e-commerce, including for MSMEs and therefore call on their partners and the private sector to provide support to the LLDCs to explore these policy options.

He called for the examination of positive linkages of MSME participation in e-commerce and their implications for economic development and international trade, as well as in promoting capacity-building and technical assistance to facilitate their use by these companies. He pointed out that they saw the potential in advancing the discussion on electronic signatures, international electronic payments, among other measures. He emphasised that every international organization has a role to play in the effort to integrate MSMEs into the digital economy; for example, the International Telecommunications Union (ITU) the World Intellectual Property Organization (WIPO), the World Bank, UNCTAD, ITC and the WTO.

III. Remarks by Mr. Mukhisa Kituyi, Secretary General, UNCTAD

In his remarks Mr. Mukhisa Kituyi pointed out that LLDCs were the most important constituent for UNCTAD. He highlighted that in view of developing the private sector in LLDCs, the discussions of the side event were timely. He noted that the ODA commitments were retreating and that the Addis Ababa Action Agenda (AAAA) appears pessimistic as it puts emphasis on the mobilisation of domestic resources and growing the partnerships with the private sector. He pointed out that the statement assumes that there is a good and strong private sector but that studies showed that the private sector in the LLDCs was still weak. He gave an example of Botswana, indicating that despite good macroeconomic
management, Botswana’s private sector was very small and weak. He noted that only 1/5 jobs in Botswana are created by the private sector.

He expressed concern that LLDCs remain vulnerable to external shocks that affect their primary commodities that are still key for many LLDCs, and remarked that the question was therefore about how enterprises can be grown and strengthened. He informed the meeting that UNCTAD had a technical assistance programme called Empratec programme and that just a few LLDCs participate in the programme. He highlighted that out of the 41 countries participating in the programme around the world, only 9 are LLDCs (1 in Asia, 8 in Africa). He called for more discussion on how this can be addressed and on how to reduce the dependency of LLDCs on commodities, particularly during the midterm review of the VPoA.

IV. Presentation by Mr. Amgad Shehata, Senior Vice President, United Parcel Service (UPS)

Mr. Shehata indicated that connectivity and education were some of their key tasks.

He indicated that policy makers were grappling with moving at the same pace as the private sector. He gave an example of the WTO that was still grappling with issues related to e-commerce.

He indicated that trade facilitation and the movement of goods was important for UPS. He also pointed out that they spent a lot of time engaging with policy makers on issues relate to creating an enabling environment. He further pointed out that they are involved in the implementation of the Trade Facilitation Agreement (TFA), which upon implementation will create about 20 million jobs and the vast majority of these jobs would be in developing countries and the LDCs. He also highlighted that it has the potential to boost developing countries’ exports by up to US$730 Billion and that it has greater impact on global GDP than the elimination of all tariffs.

He informed the meeting about the private sector initiative aimed at providing support to facilitate the TFA. He indicated that the Global Alliance for Trade Facilitation is a not-for-profit venture jointly led by the International Chamber of Commerce, the World Economic Forum and the Centre for International Private Enterprise. He indicated that UPS was part of the Alliance. He pointed out that about 82% of the WTO Members had already ratified the TFA and that about 59.7% had implemented it.

On projects that the Global Alliance for Trade Facilitation was engaged on, he provided the following examples: Vietnam-Customs Bond System; Ghana – Pre-arrival processing, Kenya and Argentina- Pre-arrival processing.

On capacity building, he indicated that UPS was a partner in the US-ASEAN Business Alliance for Competitive SMEs. He indicated that the partnership was launched in 2014 and since then the Business Alliance had trained over 55000 SMEs in 10 ASEAN Member States. He indicated that the training was focused on global supply chain readiness and
e-commerce/the digital economy. He informed that since the launch, the training had been conducted in Vientiane, Jakarta, Yangon, Bangkok and Hanoi.

He also indicated that UPS works with the International Trade Centre (ITC) on the “She Trades” initiative. He indicated that the “She Trades” initiative was aimed at achieving gender balance by providing women entrepreneurs with a platform to connect to international markets by 2020. He pointed out that women-owned firms which export, pay more and are more productive and employ more workers, but that only 1 out of 5 businesses that export are led by a woman. He indicated that UPS commits to 100,000 women exporters.
V. Presentation by Mr. Mussie Delelegn, Chief, Landlocked Countries Section, ALDC Division, UNCTAD

In his presentation Mr. Delelegn indicated that nothing works in isolation and therefore a holistic approach is needed to address the trade and development challenges facing LLDCs. He indicated that based on these conceptual underpinnings, UNCTAD was working on developing an index to measure what is needed in LLDCs to build their productive capacities and enhance structure and economic diversification. He indicated that productive capacity can be defined by three components: productive resources (natural, human capital, financial), entrepreneurship, and capabilities and production linkages.

He indicated that along these components, they identified 8 categories that provide basis for measuring the levels of productive capacities and indicating where countries are lagging. These categories included: access to energy, human capital, education, ICT, private sector, structural change, transportation, etc. He informed that UNCTAD developed 80 indicators for these categories and has measured them for 211 countries and compared with landlocked developing countries. He pointed out that LLDCs lagged behind other developing countries in all 8 categories except in natural capital. He also pointed out that commodity dependency had increased over the last 50 years. He also indicated that the results show that SMEs’ performance in LLDCs is lesser.

He indicated that the problem was, however, not uniform across LLDCs and therefore policy intervention had to take country specific challenges into account. He pointed out that surprisingly, very few firms in LLDCs raised electricity and transport as significant issues to their competitiveness and access to finance was raised as the most pervasive problem for SMEs in many countries.

VI. Presentation by Ms. Riefqah Jappie, Representative to the UN, International Trade Centre (ITC)

Ms. Riefqah Jappie expressed her pleasure to participate in the panel and she recalled that during the 2017 FFD Forum, the LLDCs’ side event focused on enhancing the role of the private sector in the implementation of the Vienna Programme of Action and the 2030 Agenda for Sustainable Development. She pointed out that she was more pleased that the discussion was even more specific and looking at how SMEs can be key players for sustainable development.

She pointed out that the ITC, as the joint agency of the UN and the WTO, was dedicated to improving the international competitiveness of SMEs and that the issue under discussion was close to their hearts at ITC. She indicated that research showed that not only do SMEs make up 90% of all companies and 60-70% of employment worldwide, they also tend to employ the most marginalized and vulnerable segments of communities, including women and youth. She indicated that when SMEs connect to international value chains, they pay
higher wages and offer better working conditions, and are therefore vital for growth, decent work and improving livelihoods.

She pointed out that SMEs in LLDCs face additional challenges compared to those in other countries and that these challenges include distance from the markets, and that LLDCs have weaker connectivity in terms of digital and transportation infrastructure. She emphasized that it was therefore important to address high trade costs, work with companies to make sure that what is sold meets international standards and connect companies to markets. She described how ITC’s SME Competitiveness Survey was conducted in over 100 countries, including 24 LLDCs. She indicated that LLDCs have a physical challenge with roads and ports, but also have a virtual challenge, as e-connectivity rates are among the world’s lowest.

She indicated that the ITC contributes to the implementation of the Vienna Programme of Action by helping SMEs in LLDCs connect to value chains. She pointed out that they marry their expertise in SME international competitiveness by addressing the particular needs of their partners in LLDCs and jointly develop market-led initiatives to boost SMEs in the LLDCs. She indicated that they focus on the following VPoA priority areas:

i. International trade and trade facilitation to lower the cost of trade
ii. Regional integration and cooperation for broader and better market access
iii. Structural economic transformation, productive capacity development and value addition to improve livelihoods

She indicated that they achieve these by working closely with partners to reduce cost, increase value and link to markets.

She gave examples of projects that ITC is working on in the LLDCs as follows:

i. **Afghanistan:** The ITC, in partnership with the European Union and Afghanistan’s Ministry of Commerce and Industry, launched a project called advancing Afghan trade in November 2016 which will be delivered in 3 years. The goal of the project is to transform Afghanistan into a vibrant regional economic hub, to diversify the economy, create jobs, reduce poverty and facilitate regional cooperation. She pointed out that they will achieve this by working with Afghan trade officials and business representatives to strengthen capacity in trade policy building, particularly by integrating SME perspectives into the policy making process. She also pointed out that the ITC assists Afghanistan in implementing trade facilitation reforms to reduce the costs of trade for SMEs, and provides technical assistance to improve quality management institutions that serve SMEs, particularly in issues related to Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). She highlighted that President Ghani endorsed the National Export Strategy, which ITC facilitated through an inclusive, consultative process with over 500 stakeholders participating. She indicated that with the strategy endorsed, the project would move to implementation management.
ii. **Rwanda:** She pointed out that if SMEs in LLDCs face significant challenges in international markets, these challenges are multiplied for women-owned SMEs. She indicated that women own and run only one-third of the world’s SMEs. She pointed out that through its SheTrades initiative, ITC aims to connect 3 million women to markets by 2021. She indicated that the programme was supported by the UK, Australia, Norway and Sweden. She also indicated that their work in Rwanda focused on the coffee industry first and that they worked with local organizations in Rwanda. She informed that ITC supported the establishment of the Rwanda chapter of the International Women’s Coffee Alliance to make it easier to share knowledge. She highlighted that women entrepreneurs in the coffee sector have improved the quality of their product to meet buyer requirements and improved their skills in sales negotiations. She pointed out that much of the work through SheTrades is possible through partnerships and that in Rwanda the project was supported by Barclays, providing access to finance. Sucafina and Douwe Egbert help improve product quality and provide intelligence on the coffee market and eBay for training, mentoring and free space on their platform for women entrepreneurs. She indicated that SheTrades in Rwanda had expanded beyond the coffee sector. She pointed out that SheTrades Rwanda was launched as a partnership between ITC and the Ministry of Trade, Industry and East African Community Affairs in March 2017 to support women entrepreneurs in all sectors and that the programme brought together partners from government, academia, financial services, and the private sector to commit to actions that foster the entrepreneurship of women and support them to overcome challenges to grow their businesses and access global markets.

iii. **South-South partnerships:** She informed that 200 East African women entrepreneurs were given access to Indian experts for mentoring and participated in networking and training through the Mitreeki East Africa-India Partnership.

In conclusion, she informed participants that to find more information about SME competitiveness at the country level, they may take a look at ITC’s annual flagship publication, the SME Competitiveness Outlook, which includes country profiles for a number of LLDCs and analyzes SME competitiveness against three main criteria to compete, connect and change.

**VII. Presentation by Mr. Andrey Kuleshov, Strategy and Development Advisor, Common Fund for Commodities (CFC)**

In his presentation Mr. Andrey Kuleshov indicated that CFC provided financing for projects aimed at enhancing the socio-economic development of commodity producers and contribute to the development of society as a whole. He highlighted that LDCs and LLDCs have been identified as special vulnerable groups of countries in the Commodities Fund.
He pointed out that the Common Fund was open and accepts proposals from anyone from the member states. He indicated that they ran an open call for proposals. He informed that in 2017 CFC received 78 project proposals and out of these three (3) proposals were taken for further screening. He pointed out if successful, these projects will be worth US$30million.

He pointed out that the Common Fund was demand-driven and responds to entrepreneur seeking to finance ideas and innovations in the commodities sector. He emphasised that the focus is on projects that are financially sustainable and contribute to specific SDGs. He pointed out that for LLDCs it means that the value generated from commodities needs to be a source of resilience to overcome vulnerabilities in these countries. On projects that CFC is engaged in, he gave an example of the Kupanua - Asili Farms Maize Project in Uganda. He indicated that the project involves individual small holder farmers where investment provides a network of aggregation points. He indicated that the maize from the small holder farmers is collected at aggregation points and later collected by trucks and taken to a facility for sale to the international markets.

He also informed that CFC was also involved in a wide number of projects focusing on taking a stake in private impact investment funds. He indicated that CFC brings the point of view of the vulnerable countries and the SMEs to these funds. He gave an example of the SME Impact Fund that is headquartered in Arusha, Tanzania. He indicated that through this impact fund small money made a big difference.

He also indicated that CFC was involved in the scaling of smallholder-based Premium Coffee Production Project in DRC and Rwanda. He indicated that one of the recent investments was the setting up of high-quality coffee processing washing stations for small holder farmers in Rwanda. He pointed out that this provided access to quality processing so that their coffee can be certified as a special organic coffee and be sold at the high premium in the export markets. He expressed that he was happy that ITC was also involved in the coffee sector in Rwanda.

In his concluding remarks, he indicated that CFC had been in operation for more than 30 years and has done quite a lot and has gained a lot of experience in making commodities work for everyone. He also shared information from a report titled Global Perceptions of the Environment, Social and Governance (ESG) Investing by Chartered Financial Analyst (CFA) Institute. He pointed out that the report states that about 73% of investment managers seriously take into consideration the environment, social and governance issues. He pointed out that the growth of the industry today is not constrained by lack of funding but by lack of investable projects. He therefore emphasised that to address the financial needs of the SMEs in the LLDCs, it is necessary to help them to make the connection with the environment, as well as social and governance requirements.
VIII. Presentation by Mr Andrew Wilson, Permanent Observer to the United Nations, International Chamber of Commerce

Mr. Wilson’s presentation focused on access to finance, which he indicated was one of the key challenges faced by SMEs in developing countries, including LLDCs. He pointed out that there was a consensus that when SMEs trade internationally they become more profitable and create better jobs, but that there is no consensus on how to provide them with necessary financing. He highlighted that since the financial crisis there has been a steady and broadening gap in terms of the demand for trade finance and the supply by the private sector banks. He indicated that every year ICC conducts a survey of about 2000 banks in about 150 countries. He reported that the results of the survey showed that there was a US$1.5 trillion dollar gap in trade finance globally and that the gap was specifically wider in the poorest countries and in the smallest companies in these countries.

He pointed out that there was a belief that the big bottleneck to trade finance was risk. He however pointed out that the trade finance was the least risky asset class available in the market. He informed he had an opportunity to create a performance database for trade finance assets to show how they perform in the market. He pointed out that they found out that the default rate on trade finance transactions, including lines of credit, demand guarantees and supply chain financing, was less than 1 percent. He expressed concern that whilst the risk associated with trade finance was low, the financing gap was growing year by year.

On how this challenge could be addressed, he indicated that ICC would be publishing a report of a survey of global banks on access to trade finance. He indicated that the survey found out that 65% of the banks in LLDCs expect the trade finance gap to widen in the next year. He noted that the current situation will therefore worsen. He indicated that on the question of what inhibits trade finance in the real economy, the answer provided was that it was regulations. He pointed out that there is a need to build an international consensus on how the objectives of supporting SMEs and the objectives of achieving SDGs may be aligned with financial market regulation. He noted two challenges that need to be addressed. He pointed out that the Basel III do not recognise the lowest profile of the trade assets and as such treat these as standard commercial assets rather than the assets class with unique characteristics in terms of the performance and utilisation as well as risk mitigation inherent in the products. He pointed out that there was a need for discussion, not in a pure regulatory way, but through taking a holistic view to understand the real-world importance of these assets.

The second challenge he noted was challenge relating to the corresponding banking network. He pointed out that trade finance was essentially underpinned by the links between the commercial banks in many different countries. He expressed concern that the Corresponding Banking Network has deteriorated from being a vibrant and robust system in the past 10 years. He pointed out that more global banks were pulling out of their links with
the developing economy banks. He indicated that if developing market banks do not have access to the international financial system, there will be no trade. He noted that there is the need to understand what regulation drivers are leading to the trend. He emphasised the need to forge an international consensus that focuses on promoting access to financial services that will ensure that LLDCs are linked to the global economy in a meaningful way. He highlighted that there was a need to ensure that SMEs, wherever they were, had access to finance and can contribute to achieving the SDGs.

IX. Interactive discussions

In her intervention, Ms Opeyemi Abebe, Trade Adviser at Commonwealth Secretariat, also emphasized that access to finance by SMEs was a real challenge. She shared a few examples of what the Commonwealth Secretariat was doing to help its members address the challenge. She indicated that the Commonwealth Secretariat had just launched a trade finance facility, supported by governments of Malta, India and Sri Lanka, focused on small states to enable banks in small countries to provide financial services in these countries. She also indicated that they had a programme with the Government of India that focused in linking the SMEs across LDCs to Indian value chains.

On e-commerce, she pointed out that the challenge that they were facing in countries that they are supporting was a lack of fixed address systems. She asked if UPS was doing something to address this challenge. In his response, Mr Amgad Shehata pointed out that technology enables them to use GPS and the “what3words” system identify the delivery address. He indicated that they use both systems in parallel with an actual address and “what3words” as a backup to find the designated delivery address.

X. Conclusions and recommendations

Based on the presentations and interventions the following conclusions and recommendations were derived:

i. SMEs make about 90 per cent of all companies and 60-70 per cent of the employment worldwide and they can play a key role in achieving structural economic transformation in the LLDCs.

ii. SMEs are vehicle for social inclusion as they provide opportunities for the young entrepreneurs and women to participate in the economy. Women own and run 1/3 of the world SMEs. Enhance the participation of women entrepreneurs and producers in global value chains and to ensure that they also participate in international trade by building their capacity to engage in international trade.

iii. ODA commitment is retreating and Addis Ababa Action Agenda (AAAA) put emphasis on domestic resource mobilization and growing partnerships with the private sector. This assumes that the private sector is good and strong however the private sector in the LLDCs remain weak. There is need for due consideration to strengthen the
private sector in the LLDCs. The LLDCs need to explore technical assistance opportunities such as UNCTAD Empretec Programme and programmes by ITC and other organizations to strengthen their private sector.

iv. The midterm review of the VPoA needs to address the commodity dependence of the LLDCs. The LLDCs need to enhance their use facilities like the Common Fund for Commodities.

v. Digital technology presents new opportunities to promote inclusive economic growth including opening new channels of trade for the LLDCs and providing SMEs with access to global consumer base. Addressing infrastructure gaps, including the ICT and energy infrastructure gaps is important to achieve integration of the SMEs in the LLDCs into e-commerce. The role of international organizations is fundamental in integrating the SMEs into digital economy, particularly, the International Telecommunication Union (ITU), World Intellectual Property Organization (WIPO), World Bank, UNCTAD, International Trade Centre and World Trade Organization.

vi. Address the high trade costs faced by the LLDCs including through the implementation of WTO Trade Facilitation Agreement (TFA). The private sector has a key role to play in the implementation of the TFA.

vii. Forge international consensus that focus on promoting access to financial services that will ensure that the LLDCs are linked to the global economy in a meaningful way.