

# ICSB Gazette

The Global Leader Supporting Micro-, Small and Medium Enterprises

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## The Role of Micro-Small and Medium Enterprises in Achieving the United Nations Sustainable Development Goals

Written By: United Nations Department of Economic and Social Affairs (DESA)



### Can Micro-Small and Medium Enterprises Be Part of the Solution to Reach the United Nations Sustainable Development Goals?

There is less empirical evidence on MSMEs growth in developing and emerging economies than in the developed world. MSMEs in developing and developed countries are faced with different challenges. Many MSMEs in developing countries are still informally organized enterprises limiting their longevity and wider contributions they make towards the SDGs. There are also questions on how formalization of the economy ought to take place. Moreover, demands and challenges vary within the micro, small and medium enterprises cluster itself demands and challenges faced by micro enterprises are different from those faced by small and medium enterprises. Studies show that the growth of MSMEs in developing and least developed countries (LDCs) dominate in sectors which are labor intensive and possess low barriers to entry, including agriculture and agribusiness, manufacturing and service sector.



Women, youth and other vulnerable groups face more difficult challenges in MSME development. Women and youth MSME entrepreneurs, for example, particularly those from rural poor communities, are often further disadvantaged in growing their business, lacking land deeds and/or collateral needed to access formal sources of credit. Other challenges include limited access to finance and lack of capacity and knowledge, particularly with regards to business development, marketing and strategic management skills. In addition, many developing countries have not been able to fully tap

the potential of MSMEs due to weak political, institutional and regulatory mechanisms. MSMEs are less likely to secure bank loans than large firms, which hampers their growth, rendering them more vulnerable to market risks.

MSME entrepreneurs also suffer disproportionately from asymmetric information, including a lack of market information and limited support on strengthening business management skills such as financial planning and bookkeeping, which are crucial to formalize their business operations, capture market share and cope with market fluctuations. Lack of professional business management skills may further limit appreciation of MSME entrepreneurs on the value of Research and Development (R&D) and innovation in promoting productivity and keeping a competitive edge within the global digitalized economy.

These challenges, evident in all the pilot countries outlined above, require transformation in policy and how financial markets and institutions operate. These would not only reduce constraints of MSMEs in accessing financial resources, but also catalyze growth of informal MSMEs into formal MSMEs, generating multiple impacts, including unlocking sources of capital and providing additional economic growth and employment opportunities. Other recommendations include mainstreaming mechanisms to support the important contributions of MSMEs to the SDGs into national development policies and plans; development of collaboration and trade agreements across countries to expand the access of MSMEs to markets at the regional and global level; piloting and up-scaling of innovative financing solutions; developing targeted capacity building and awareness campaigns; and creating business ecosystems conducive to allowing MSMEs to access markets and financial resources. Public-private partnerships are also key, particularly in maximizing the role of trade facilitation to improve the capacity of MSMEs in the global value chain. The development community, including the United Nations system, needs to build platforms to bring together all stakeholders to foster the exchange of good practices on MSME growth for the SDGs.

### **MSMEs in Achieving Decent Work**

In the light of the review by the High-level Political Forum in 2019 on SDG 8 ('promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'), it is important that the role of MSMEs in achieving decent work is examined. As is defined by the International Labor Organization (ILO), decent work refers to "working conditions that are free from coercion, provides equity and security at work, contains dignity of work and permits decent working hours.



MSMEs contribute a major share of total private sector entities in both developed and developing countries, and when the informal sector is included, they account for about 9 out of 10 jobs in developing countries. They are typically the main income source for the poorest population segments, especially in rural areas, and tend to employ a larger share of the workforces in vulnerable sectors.

Private sector development is recognized as a means to create high quality employment opportunities in developing countries. The presence of MSMEs is typically concentrated in low skilled and labor intensive sectors such as light manufacturing and the service sector. Compared to large enterprises, MSMEs typically bring their products directly to the market, selling to individual customers, or are alternatively contracted as suppliers in the lower-value added upstream segments of value chains dominated by Multi-National Enterprises (MNEs).

There is less cooperation and collaboration among MSMEs, often due to the lack of trust and market information. Many MSMEs, particularly, micro enterprises, are family owned businesses with a strong tendency to hire family members without careful consideration of the suitability of their skill sets. This impacts on operational efficiency, the quality and consistency in both products and processes and the competitiveness of MSMEs, which could turn jobs created by MSME into being lower paid and more insecure, compared to those provided by large enterprises.

Informality is another important feature of MSMEs, particularly, in developing and LDC countries. A vast majority of MSMEs, especially the micro and small enterprises are informal business entities without registration in these countries. Informal MSMEs are important job providers. Lengthy registration processes, combined with the high costs of compliance, pose challenges. On the other, given the positive externalities for all, MSMEs entrepreneurs need to be further incentivized to actively formalize their businesses, the benefits of which should be accrued and enjoyed by MSMEs entrepreneurs themselves. Unfortunately, the informal nature of these MSMEs makes it difficult to examine and understand their demands and challenges for business development. Because of informality, it is also difficult to ensure jobs provided by informal MSMEs are fully covered by social protection network.

### **MSMEs as Job Providers**

While emphasizing the crucial role of MSMEs in creating employment, it could be useful to highlight their potential as decent jobs providers. This means not only formulating policies at enterprise level for improving human capital, efficiency and productivity of MSMEs, but also launching structural transformation that provide a regulatory framework conducive to their growth. Decent job opportunities should also provide sufficient earnings that allow job holders a level of consumption above the poverty line, so as to reduce underemployment and avoid the dilemma of employment poverty. In view of the MSME characteristics shown above, jobs provided by MSMEs may not always fit the decent job requirement from the dimensions of earnings and working conditions.

### **Recommendations made to the HLPF in 2019 include**

- Support MSMEs: Governments should note that MSMEs play a vital role in driving sustainable livelihoods and creating a vibrant global economy. MSMEs should be integrated into the digital economy, supported in adopting innovations, creating decent employment opportunities and gaining a stronger foothold in global value chains. They should be fully informed and involved on ongoing policy development and strategies targeted at incentivizing growth. Collaboration and

trade agreements across countries are encouraged to expand the access of MSMEs to markets at the regional and global level. The comprehensive pillars of the ILO Sustainable Enterprises Conclusions should also be used.

- **Create incentives for entrepreneurship:** Countries need coherent efforts to create incentives for MSME entrepreneurship, enabling their knowledge and skills to appreciate and adopt innovations, and to improve their access to knowledge and networks, such as business associations and chambers of commerce. The development community, including the United Nations system, needs to build platforms to bring together all stakeholders to foster the exchange of good practices on MSME growth for the SDGs.
- **Access to finance should be improved:** Access to finance remains a serious constraint for MSME growth. This requires the piloting and up-scaling of innovative financing solutions. Targeted capacity building and awareness campaigns should be undertaken to transform the mindsets and attitudes of commercial banks towards MSMEs.

### **About the contributor:**

*The Department of Economic and Social Affairs through its Division for Sustainable Development Goals at the United Nations currently manages a program on the role of Micro, Small and Medium Enterprises (MSMEs) in achieving the Sustainable Development Goals. The project is run through the Agenda for 2030 Sustainable Development Sub-Fund of the UN Peace and Development Fund (UNPDF), of which the People's Republic of China is a major contributor. The project presently operates in 8 countries: Fiji, The Philippines, Cambodia, Laos, Sri Lanka, Kenya, Tanzania and Gambia.*



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### **Skye Blanks**

Editor, ICSB Gazette

Skye is the Junior Project Manager at the International Council for Small Business (ICSB) in Washington, D.C. and an Editor of the ICSB Gazette.

### **ICSB Executive Director**

#### **Comment:**

This ICSB Gazette issue is featuring The United Nations Department of Economic and Social Affairs (DESA)

Dr. Ayman El Tarabishy

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