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ROLE OF MSMES AND ENTREPRENEURSHIP IN ACHIEVING THE SDGS

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"UNCTAD has been contributing to strengthening MSMEs through its three pillars of work: consensus building, research and analysis, and technical assistance."

In the context of the 2030 Agenda for Sustainable Development the role of entrepreneurship in improving the quality of life for ordinary people, including disadvantaged groups is recognized, as it contributes to building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation. In regard to the SDGs under review in 2019, entrepreneurship is linked to SDGs 4 and 8. SDG target 4.4 aims to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment and decent jobs and entrepreneurship. Concurrently, SDG target 8.3 sets out to promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises (MSMEs), including through access to financial services. MSMEs are a key part of the equation as agents for and beneficiaries of inclusive development. In most countries, MSMEs are the main drivers of employment and important facilitators of income generation, poverty eradication and inequality reduction for the majority of the population, including disadvantaged groups. MSMEs are one of the best tools to address the challenge of creating 600 million new jobs by 2030, particularly for the youth as they provide sixty to seventy percent of formal employment in developing countries and eighty percent in subSaharan Africa. Moreover, transformational entrepreneurs create new products and business models and offer dignified employment, and their success leads to broader improvements in the quality of life and even bolsters fiscal sustainability.

Major Constraints for MSMEs to have Transformational Impact

Entrepreneurs in developing countries and countries with economies in transition, however, face challenges such as lack of competitiveness, unreliable or unaffordable electricity, the digital divide and inadequate financing, that limit their engagement in productive activities and contribution to inclusive development. The situation is especially acute in emerging markets where, according to the Inter-Agency Task Force on Financing for Development 2019 report (IATF), 45 per cent of small businesses are able to access credit provided by formal financial institutions in Latin America and the Caribbean compared to 68 per cent of large companies. While the gap varies considerably from region to region, it's particularly wide in Africa and Asia. Still according to the same report, the current credit gap for MSMEs is estimated to be more than US $5.2 trillion, and these enterprises continue to rank their lack of adequate financing as the biggest obstacle to growing their business. Governments therefore have an important role in creating an enabling environment for entrepreneurship and MSME development and in encouraging inclusive growth aligned with the 2030 Agenda. Equally important is the sharing of information on responsible business with a view toward identifying good practices in enhancing private sector contributions to sustainable and inclusive growth. To address the MSME financing gap and form well-regulated markets with transparent and wellgoverned companies, UNCTAD has been increasingly supporting stock exchanges, including through the UN Sustainable Stock Exchanges initiative.

Role of UNCTAD

As the focal point within the UN system for the integrated treatment of trade and development, and interrelated issues of finance, technology, investment and sustainable development, UNCTAD has been contributing to strengthening MSMEs through its three pillars of work: consensus building, research and analysis, and technical assistance.

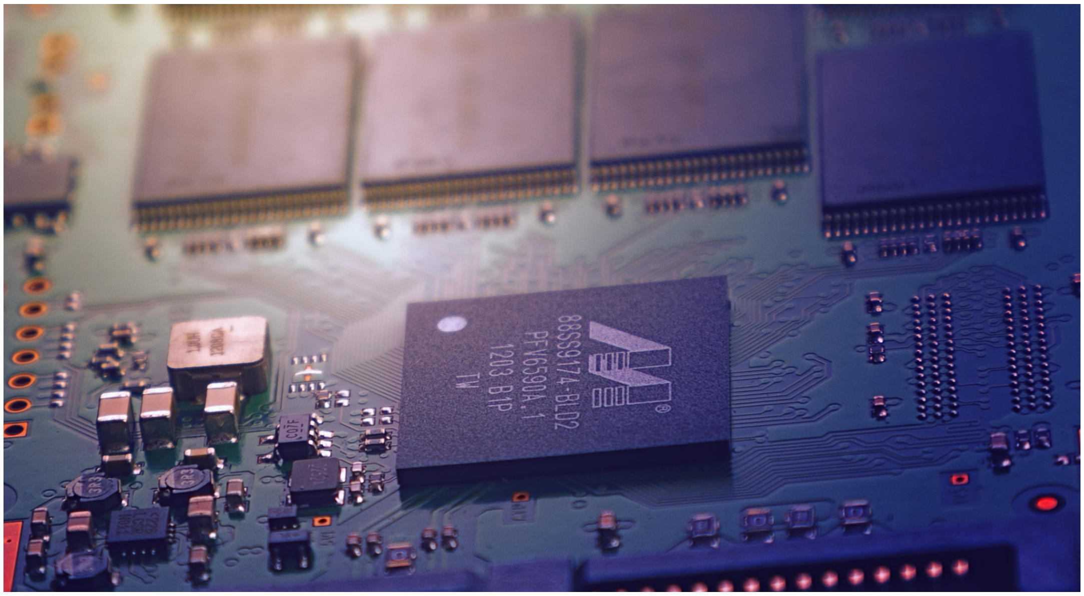
Consensus building

The UN General Assembly in its resolution entitled entrepreneurship for sustainable development, adopted in December 2018, acknowledges UNCTAD's work in support of entrepreneurship and calls upon UNCTAD to continue supporting and assisting Member States to identify, formulate, implement and assess coherent policy measures on entrepreneurship and the promotion of MSMEs.

Ministers attending last year's "Ministerial Roundtable on Entrepreneurship for Sustainable Development" at the World Investment Forum (WIF) in Geneva, emphasized the importance of promoting policy, business and regulatory environments that foster the long-term growth potential of MSMEs by removing regulatory roadblocks, upgrading education for youth, women and vulnerable groups, facilitating access to finance for startups as well as for established businesses and developing innovation and technology exchanges. With a view toward gender equality and empowerment of women, UNCTAD has worked to address the impact of technology on SDG implementation and the persistent significant gender divide in science, technology, and innovation (STI). For instance, women are twelve percentage points less likely than men to access the Internet, and this gap widens to thirty-three percentage points in least developed countries. Lack of gender equality in STI leads to lost talent and potential and undermines the contribution of STI to the 2030 Agenda. Therefore, UNCTAD and the Commission on Science and Technology for Development (CSTD) emphasize the importance of technology to empower women and girls, as well as the importance of women and girls as contributors to technology and innovation. In this context, UNCTAD as the secretariat for the CSTD in the past year has strengthened the collaboration between the CSTD and the Commission on the Status of Women. Furthermore, during the 22nd session of the CSTD, UNCTAD held a session on Applying Gender Lens to Science, Technology and Innovation, and a group discussion on gender perspectives on Priority Theme 1: "The impact of rapid technological change on sustainable development". Five Ministers attending the "Ministerial Roundtable on Entrepreneurship for Sustainable Development" at the WIF commended UNCTAD for engaging with policy makers and stakeholders in introducing a holistic and inclusive approach to entrepreneurship. Reference was made to UNCTAD's Entrepreneurship Policy Framework (EPF)1 and its implementation in developing countries.

Research and Analysis The Trade and Development Report (TDR), the World Investment Report (WIR), and the Technology and Innovation Report (TIR), which UNCTAD published as flagship reports in 2018, all addressed MSMEs. The TDR discussed the idea that available evidence challenges the claim that international trade in the era of Global Value Chains offers growing opportunities for individual entrepreneurs, SMEs and the poor in developing countries. Furthermore, the TDR noted that IPR profit shifting and creative loans (tax) cost saving schemes only available to larger firms have been acknowledged to bias competition and threaten the survival of competing SMEs unable or unwilling to engage in systematic tax avoidance. The report suggests that for innovation policy to be more cost-effective, there is need for firms and innovators within developing countries to have access to big data that is typically collected by multinational platform companies. Therefore, policies designed to prevent monopolistic control and to ensure that small- and medium-sized producers and potential innovators have affordable access to such data, are obviously important.

Finally, the report emphasizes regional digital cooperation in digital innovations and technology. It concludes that many developing countries are in a process of incentivizing digital start-ups to encourage innovations. SMEs are the main beneficiaries of these low-cost, high-returns innovations. However, it is a challenge to retain successful digital innovations for furthering national digitalization efforts because of a high rate of acquisitions of these start-ups by the big technology firms, who pick out the most successful innovations. This is an area where South–South cooperation can greatly contribute. Development banks like the New Development Bank, the Asian Development Bank and the African Development Bank can play an important role in financially supporting these startups and encourage them to develop software and digital technologies for use at the regional level. A regional strategy can be designed that encourages start-ups that cater to providing innovative digital solutions at the regional level. Intraregional investments in digital technologies can foster technology transfers and innovations.



The WIR states that countries at earlier stages of development, in particular LDCs, tend to have a higher number of initiatives that focus on segments of the economy that are key to their development, such as the Craft Industry Strategic Plan in Rwanda or the SME Policy in Uganda. Furthermore, investment policy can focus on the key supply-side factors of production, from the promotion of investment in infrastructure to policies stimulating business linkages between foreign investors and local SMEs to build skills and disseminate technology. It can target all policy levels, from incentives for individual firms to broad investment facilitation measures to support the industrial system. Investment policies are increasingly linked to industrial policies, some of which often push enterprise development and aim to improve access to finance for MSMEs Some strategies put relatively more emphasis on skills development, SME support and the promotion of linkages, export promotion, and strategic public procurement as a tool to promote domestic enterprise development. The TIR concluded that platforms built on the Internet are creating new opportunities for entrepreneurs all over the world to start new technology-based companies, and for both startups and existing SMEs to reach global markets. While global trade has stagnated, and cross-border capital flows have declined since the 2008 financial crises, there has been an exponential increase in flows of data and information, with significant implication for job creation in developing countries and connectivity of their economies to the global marketplace and to global knowledge, education and entertainment. Furthermore, in the last few years, artificial intelligence has become a major focus of attention for technologists, investors, governments, and futurists, and recent breakthroughs have led to major advances, driven by machine learning and deep learning, facilitated by access to huge amounts of big data, cheap and massive cloud computing, and advanced microprocessors. Artificial intelligence now includes image recognition that exceeds human capabilities and greatly improves language translation, including voice translation through natural language processing, and has proven more accurate than doctors at diagnosing some cancers. Upward of $25 trillion dollars will be spent in the next 1.5 decades on achieving the SDGs and SMEs, entrepreneurs, including start-ups are more likely to be nimble and flexible to capture these opportunities. But instead of only aligning with the SDGs, entrepreneurs and companies will have to do the harder exercise of integrating the SDGs in their core business. It is only those companies that will be able to take into account the interlinkages, synergies and trade off among the targets, which will be in a position to harness the 4th Industrial Revolution (4IR) technologies.

Finally, the TIR concluded that the entrepreneurial ecosystem and access to finance are critical to business incubation and encourage the growth of innovative companies. An entrepreneurial ecosystem oriented towards supporting innovation should provide flexible access to finance, particularly for young entrepreneurs and innovative companies. Governments can contribute by ensuring a stable regulatory framework and promoting financial instruments catering to the needs and capabilities of SMEs and entrepreneurs.

Technical Assistance

UNCTAD's third pillar of assistance to Member States focuses on developing entrepreneurial skills and building local productive capacities of MSMEs, such as through its Empretec and Business Linkages programmes, as well as its work in facilitating eTrade for SMEs in developing countries. In the thirty years since its founding, Empretec has demonstrated that entrepreneurship can be taught, based on its unique behavioural methodology. Over 470,000 entrepreneurs participate in more than 14,000 Entrepreneurship Training Workshops around the world, and the programme continues to grow beyond the 40 existing countries with requests to join the network from 29 countries. The Empretec Programme has made a significant impact on participants in developing countries and economies in transition. UNCTAD's Business Linkages programme continued to support domestic MSMEs, including rural enterprises, to diversify and add value to their production, thereby participating more gainfully and effectively in international production systems. In Tanzania, for instance, UNCTAD worked closely with ITC, UNIDO, and groups of beneficiaries in selected value chains, to improve farmers' business performance through training and capacity-building activities that changed their mindset from subsistence to commercial farming. Following the intervention, most of the farmers invested in improved breeds of horticultural products and fruits, growing varieties with higher productivity or that would better meet the buyers' needs. In the Moshi region, for example, the average productivity per acre among women farmers increased from 10,000 kg to 30,000 kg

eTrade Assessments in LDCs (eT Readies) with the aim of helping countries take stock of their e-commerce capabilities and formulate related recommendations to grow digital trade. A total of 30 LDCs have requested UNCTAD's assistance in this area. The barriers to expand e-commerce are manifold and include limited awareness on e-commerce among policy and law makers, businesses, absence of dialogue between the public and private sectors, low Internet access in rural areas, costly access to fixed and mobile-broadband Internet, weak legal and regulatory frameworks, unsuitable financial mechanisms and insufficient business development skills, especially for MSMEs to startup and grow e-commerce businesses.

The Rapid eTrade Readiness Assessment Programme has had key policy impacts so far, including critical inputs generated to enable countries to better understand the interlinked issues related to the digital economy; growing awareness about the role of e-commerce for development among LDCs at domestic and regional levels; an enhanced knowledge base that also benefits international organizations, development partners, NGOs and civil society; governments have been prompted to request additional technical assistance; and countries are better equipped to formulate their needs to potential donors/partners. eTrade for all is a collaborative effort to scale up cooperation, transparency and aid efficiency towards more inclusive e-commerce. Currently the partnership features 30 entities sharing the same vision: to collectively engage in a different way of supporting e-commerce in developing countries. Organized around its digital platform, etradeforall.org, it offers a space to navigate more easily the wealth of information and assistance available on e-commerce. The platform allows, for instance, beneficiary countries to find in a single place technical assistance that can help them to engage in and benefit from e-commerce, partners to reach out to their constituencies through a systematic approach, and donors to finance impact-oriented projects meeting their development priorities.

The initiative also acts as a catalyst for generating increased cooperation opportunities among its partners. For example, with the financial support from the Government of the Netherlands, UNCTAD is supporting a new initiative called “eTrade for Women”. This project will showcase the experiences of successful women business leaders in e-commerce, providing them with a unique opportunity to act as advocates for this cause. They will play a key role in inspiring and empowering the next generation of entrepreneurs and get a platform from which to make their voices heard in policy processes both regionally and globally.

The way forward: pull by investors

It has been a decade since the World Bank issued its first green bonds and now many national and subnational governments as well as stock exchanges are issuing green bonds and, increasingly, social and impact bonds. We do not have the ten years it took investors to feel comfortable with green bonds; the learning curve for impact and social blended financing needs to be compressed into a few years if we are to achieve the SDGs by 2030. This time, the financial sector is leading, and the UN is reforming itself to help support and speed up the process. Convergence was created in January 2016 by the Canadian government and the Citi and Ford Foundations, among others, with this goal in mind. They are experimenting and documenting their experience with blending and multi-tranche instruments such as first-loss capital protection, loan guarantees, concessionary loans, and grants from various private and public actors to improve risk-return profiles to attract the capital market. Each instance is documented, and lessons learned are made public to speed up the learning2 . The Rockefeller Foundation, the World Bank and others also aim to speed up learning on impact and social investment.

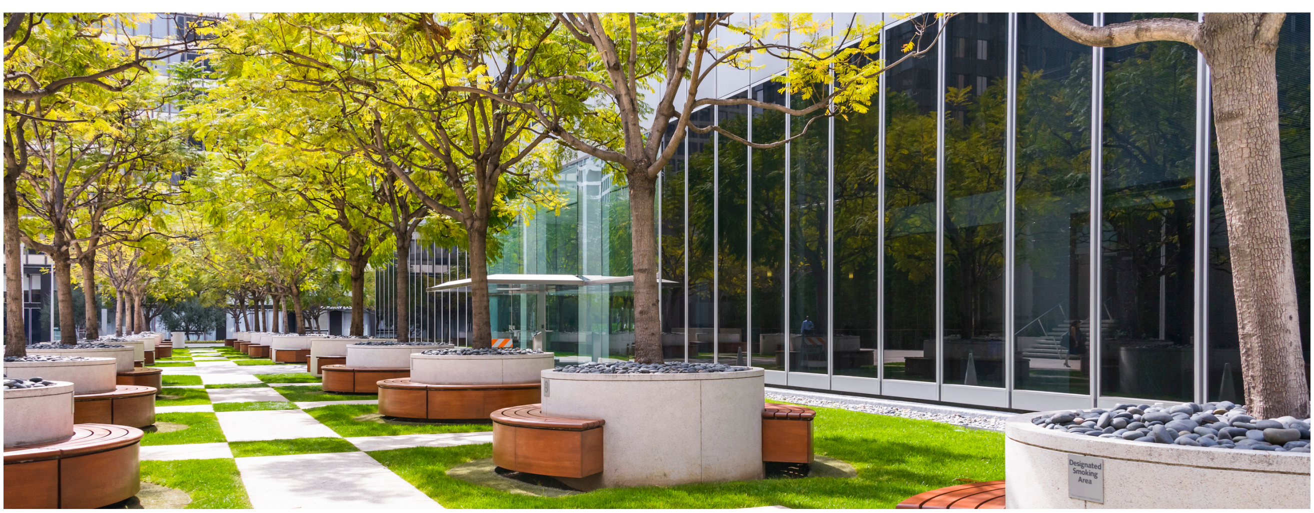
Another emerging model is the “social-impact bond”, in which “outcome funders”, such as governments and aid agencies, pay back investors who have funded projects that meet specific goals which, although socially desirable and delivering national cost savings, do not yield direct profits. Israel, the U.S. and Canada are acquiring experience with these bonds usually based on the advanced market commitment (AMC) principle.

A growing number of governments are also increasingly requiring more meaningful disclosure by corporations on ESG issues, especially related to pension funds. A growing number of stock exchanges are also requiring or raising awareness with their listed companies about disclosure of ESG (IATF Report on FfD and Sustainable Stock Exchange Initiative). In addition, as climate change impacts are increasingly felt, governments are starting to price carbon externalities and clarifying fiduciary duty. Companies that take ESG into account are not yet receiving a premium price or less expensive capital, but most participants at the Financing for Development Forum believe we have reached a critical mass where this is about to change.

The SDGs have also led to a need to clarify what core indicators should be reported by corporations and whether they are material to their business sector or not. As corporations struggle to align and report against the SDGs, the idea of a core set of indicators that all corporations should report against is gaining ground. UNCTAD and UNEP, as co-custodians of indicator 12.4, have conducted necessary consultations and will issue a set of 33 core indicators before the end of the year through International Standards of Accounting and Reporting (ISAR). But almost as importantly, artificial intelligence and machine learning is allowing innovative companies such as True Value Lab and Global A.I Corporation to provide real time data on companies from unstructured data gathered over the Internet. Consequently, even if companies wanted to shun the 33 core indicators and only report against indicators that make them look good, the combination of big data, AI and machine learning is allowing third party entities to provide this information real time to investors

Four years into the SDGs, 146 of the 193 UN member countries have already conducted their Voluntary National Reviews and clustered the goals and targets. Many member countries are also in the process of assessing which policies, mechanisms and institutional arrangements will be needed to achieve the SDGs. What most have not done is link a budget to these strategies or identify the best sources of financing to achieve them. The UN, through the Inter-Agency Task Force on Financing for Development's annual report, monitors progress on the means of implementation and sources of financing. The 2019 report includes a chapter on integrated national financing strategies that will help address the annual financing gap, which is estimated by UNCTAD at $1.5 trillion for developing countries alone. The Secretary General has also launched a sustainable financing strategy accompanied by a three-year roadmap supported by UNCTAD, DESA, the UN Global Compact, and UNDP, as well as others as needed.

Beyond reporting and being a good citizen, the SDGs offer large business opportunities for corporations that not only align with the SDGS but also integrate them in their business model. The World Business Council for Sustainable Development concluded that the SDGs represent a minimum $12 trillion business opportunity. These opportunities will be easier to capture by flexible, creative and nimble companies that are able to innovate, which often are SMEs. By doing the integration analysis, companies will be able to take into account the interlinkages, synergies and trade offs among the targets and unleash innovation, creativity and partnerships needed to achieve the SDGs in the eleven-and-a-half years we have left. These innovations need to deliver products and services for less money (affordable and high quality) from less resources (efficient), for more people (inclusive), as stated by Dr. R.A. Mashelkar during the 2019 Global Solutions Summit held at United Nations Headquarters in New York. Ensuring that women-owned companies have access to capital and can capture thirty-percent of the wealth created between now and 2030 as part of an equality moonshot will go a long way in helping achieve the SDGs.



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ICSB Executive Director Comment:

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