

SDG ACTION WEEKEND
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Bridging the Financing Gap: Unleashing the Potential of SMEs

Organized by the International Trade Center (ITC) & UNCTAD



Background

Small and Medium Enterprises (SMEs) are the backbone of our economies - they represent about 90% of businesses and are responsible for more than two thirds of employment worldwide, yet the financing gap facing small businesses is estimated to be approximately \$5 trillion (i.e. more than the GDP of Germany). SMEs – particularly women and youth-led business- face unique challenges – not only do they pay higher rates for lending, but they find it harder to access capital due to lack of access to networks, collateral or social norms. Through a series of panel discussions, the event focused on the paradigms shifts, digital and financial solutions, partnerships and regulatory policies needed to empower SMEs and increase the financial inclusion of women and youth-led SMEs.

SMEs can be empowered by increased access to long - term finance and digital technologies, supported by smart government policies and engaged multinational corporations. By fostering an ecosystem favorable to SMEs, building on innovative collaborative approaches to de-risk financing, empowering and channeling finance to successful entrepreneurs can accelerate progress towards the SDGs laid out under the 2030 Agenda.

Key Issues

- SMEs are the backbone of our economies - they represent about 90% of businesses and are responsible for more than two thirds of employment worldwide. There will be no achievement of the SDGs without adequate capacity building, financing and greening of SMEs.
- Access to liquidity and long-term patient finance at affordable rates is of paramount importance for the survival and growth of these firms. Yet, globally more than half of the requests made by SMEs for trade finance are rejected, compared to only 7 percent for multinational companies (Source WTO).



- Particular focus needs to be given to increasing financial inclusion of women and youth-led SMEs who face additional constraints that limit their access to finance and who pay higher rates for capital due to limited access to assets to pledge as collateral, and shorter credit history records and gender or youth-bias.
- Supply chain finance (SCF) is a set of tech-based business and financing processes that lower costs and improve efficiency for the parties involved in a transaction. SCF can help SMEs navigate the dangers of unforeseen events, optimize their working capital, expand operations, and successfully meet customer and market demand.
- Enhancing working capital availability will enable SMEs, which continue to face financing gaps deepened by the recent global health and energy crises, to participate in Global Value Chains (GVCs). This will allow them to access new markets and better engage in international activities, which is vital to empowering SMEs across borders, and allowing them to contribute to economic growth. Various technology platforms already exist to support collaboration across GVCs and increased the available supply of working capital.
- Large corporate, governments and financial institutions including public development banks have an important role to play in developing and implementing financial inclusion programs and initiatives—ranging from the adoption of alternative credit scoring mechanisms, collecting and leveraging gender and age -disaggregated data, and implementing relevant impact focused guarantee schemes for a risk-sharing mechanism that can facilitate access to finance to SMEs and, in particular those led by women, youth and minority groups. Finance also needs to be directed more intentionally towards innovative SMEs and social enterprises that are achieving socio-economic impact which advance the SDGs.

Key Recommendations for Action

- i. Develop National Working Capital platforms at the national level to improve employment opportunities, and enable small, minority and woman-owned businesses to thrive.
- ii. Leverage existing mechanisms such as the design of more strategic public procurement policies which target SMEs and allow them to scale.
- iii. Increase the availability of long-term patient capital, adopt alternative credit scoring mechanisms for assessing and pricing risk and improve collection of gender and age -disaggregated data and evidence to demonstrate why investing in inclusive SMEs makes business sense.
- iv. Enhance collaboration between public and private financial institutions including public development banks (PBDs) to develop and implement guarantee schemes, de-risking mechanisms and financial products that increase SME access to finance. Particular attention must be paid to designing programs and interventions tailored to women and youth which address their very specific needs and challenges.



- v. Increase the share of transition financing allocated to SMEs and increase the availability of technical support provided to SMEs to enable their adoption of new compliance requirements, lower their emissions, report on their carbon output and positively contribute to biodiversity in global value chains – this will generate outsized returns for the SDGs, and will enable large corporates to report on and address scope 3 emissions
- vi. Promote the adoption of harmonized norms and regulations in global impact and sustainability accounting standards.
- vii. Provide SMEs with low/no-cost access and support so they can improve their measurement and ESG processes and build more bankable and impactful business offerings.
- viii. Address trade restrictions and lowering administrative and reporting burdens felt by SMEs.
- ix. Increase investment in technology and digital payment platforms that increase the timeliness of payments and improve liquidity, reduce administrative and reporting complexity, share market intelligence, simplify qualification requirements, and increase the transparency of these transactions.
- x. Engage with corporations to increase the availability of apprenticeships and training programmes offered by large corporations to SMEs and young entrepreneurs, with a particular focus on making the business case for SDGs.

For more information, please visit: <https://www.un.org/en/conferences/SDGSummit2023/SDG-Action-Weekend/small-and-medium-sized-enterprises>.