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Statement

by

Mr. Cheick Sidi Diarra

Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

at Session 1 on the theme "Strengthening the enabling environment for successful SME development"

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Excellencies

Distinguished delegates

Ladies and gentlemen,

I am honoured to be able to speak at this important regional meeting of ECOSOC. I would like to commend the organizers for their excellent arrangement of the meeting. The theme of this session is highly relevant particularly for Africa.

Allow me first of all to extend my heartfelt congratulations to the Chair of the session, H.E.Mr. Magd Abdelaziz for his recent appointment as the Special Adviser of the UN Secretary-General for Africa. I'm happy to hand over the leadership of OSAA in such able hands. I wish you all the success.

The significance of SMEs for socio-economic development in any country can not be overemphasized. SMEs account for approximately 90 percent of all global businesses and employ nearly 60 percent of the global workforce. They can significantly contribute to building a sound and competitive economy, wealth creation, employment generation, combating poverty and exclusion and achieving sustainable development.

It is encouraging that African countries are fully committed to promote sound SME policies, in particular in the industry sector. A number of countries in the region have already adopted policies to build a modern, competitive, and dynamic industrial sector. The commitment of African countries to industrialization is also manifested at the regional level. The New Partnership for Africa's Development (NEPAD) identified economic transformation through industrialization as a critical vehicle for growth and poverty reduction in the region. Moreover African Heads of State adopted a Plan of Action for the Accelerated Industrial Development of Africa (AIDA) in 2008. Implementation strategies for the Plan were subsequently endorsed by African Ministers at the 2008 Conference of African Ministers of Industry (CAMI).

Africa is facing a certain number of challenges that can find their solutions in a well articulated SME policy. Africa's economy is characterized by a low level of industrialization, low level of technological inputs, which result in exporting commodities in raw condition, by the same token, exporting job creation, wealth generation and revenues generation opportunities for countries concerned. . Another major challenge before the African countries is to generate productive jobs and livelihoods for the 7–10 million young people entering the labour force each year.

Bringing the informal economy-which represents the largest share in African economies- in the mainstream will require an attractive policy of promotion of SMEs. These phenomena have necessitated taking an urgent action to diversify their production and building resilience to shocks through the development of SMEs. More specifically, these policies aim at adding local value to primary goods produced in the Continent, create jobs for local work force, generate revenues for more domestic investments.

But experience suggests that in many African countries the SME sector has not delivered the promise that it was supposed to do. Growth of SMEs was stifled by the absence of favourable environment and support services. In many African countries, SMEs operate under an unfriendly policy and regulatory environment, with difficulties in accessing credit, lacking sufficient markets for their products, using outdated technology and having no sufficient training facilities for the entrepreneurs.

SMEs can play a much bigger role in Africa if they are properly nurtured. They need a favourable institutional framework, which is often overlooked by policy-makers and legislators. If the SMEs are to play a meaningful role in regional and global markets, they have to enjoy an undistorted “level playing field”.

It is worth mentioning that 33 of the African countries are LDCs. The Istanbul Programme of Action for LDCs adopted last year emphasized the need for promoting an enabling environment for private sector development including for small and medium-sized enterprises through a transparent and rule-based regulatory framework. Development partners have committed to support initiatives to strengthen the institutional and managerial capacities and the productivity of SMEs in least developed countries to improve their competitiveness.

LDC Governments on their part committed to simplify business procedures to make them cheaper, simpler and speedier. Governments also can provide tax incentives for SMEs and subsidies similar to those available to large companies or micro entrepreneurs, and can make provisions for start-up funds for them.

Mr. Chairman,

We believe that the following few policy measures, if taken and implemented in an efficient manner, can create an enabling environment for SMEs:

1) It is important to ensure the voice and participation of the business people in the decision making processes related to SMEs. In several countries, such as Mali and Mozambique, private businesses now

participate in identifying the most needed reforms. This may be emulated in other countries.

2) . Development partners should adopt an investment preference regime to encourage their corporations to invest in SMEs in African countries. These incentives could take various forms including tax exemptions for firms that invest in priority sectors in Africa and investment guarantees and credit risk guarantees.

3) The accumulation of technological knowledge and capabilities is critical to inducing structural transformation and gaining competitive advantage in export markets. African countries should receive more support for technology and innovation. This could take the form of stimulating domestic production of technological knowledge. Additionally, development partners can facilitate Africa to get easy access to existing technology through FDI, licensing and purchasing capital equipment.

4) Government, development partners and large MNCs can help African SMEs comply with international standards such as ISO 9001 and 14,001. Such compliances can enable SMEs to compete in international markets while at the same time improving overall quality of their products.

5) It is unlikely that environmental concerns figure high on the business agenda of SMEs. Though individually the environmental impacts of SMEs are insignificant, collectively this might be significant. Access to environmentally sound technologies and capacity building for compliance with various standards particularly with environmental standards can meaningfully integrate sustainable development thinking into their production processes and operations. Thus, the Rio+20 Conference is vitally important to recognize SMEs as part of the agents in promoting green economy for sustainable development.

6) The most pressing challenge for SMEs is getting access to financial services and investment capital. Traditionally big companies can easily secure necessary bank loans and private investments. At the same time, microfinance tends to benefit individual entrepreneurs. Though SMEs are in need of more funding; paradoxically, most of the financial institutions are unwilling to fund them, due to perceived risks and high transaction costs. Even when they are able to obtain loans, it is associated with high interest rates and shorter pay-back times. Financial institutions and products need to be developed in a targeted manner to ensure easy access to finance by SMEs. Governments and donor countries can facilitate this

by providing necessary guarantees in regards to the potential threat of default.

7) Financial institutions are not the only source of money for SMEs. Remittance can be another important source of financing. In order to foster this approach, co-development schemes could be explored. Small scale projects supported by ODA could be implemented in Africa, where remittances could be invested with attractive and guaranteed dividends. This can incentivize productive investment of remittances.

8) Multinational corporations and large companies can maximize value across the manufacturing and supply chain by partnering with SMEs. It has been found that hundreds of small parts of the world's biggest automobile and plane companies are manufactured far away from the actual production plant.

9) Given the small domestic markets of African economies, the regional market can be a force multiplier for industrial development in the region. Building a robust regional market is also necessary to unlock Africa’s manufacturing potential and prepare it to compete in global export markets.

In conclusion, industrial development is crucial for sustained growth and poverty eradication in Africa. A new industrial policy is needed to induce structural transformation and engender development in African economies through successful development of SMEs.

I thank you for your kind attention.