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The Role of Small Businesses in Triggering Economic Development in Emerging Economies

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Latin America (LA) is experiencing an interesting transitional period. Although always seen as a kaleidoscope of cultures, traditions and different levels of development, something is similar all across the region: the vital importance of micro, small and medium enterprises (MSME). With more than 95% of all business under this category, MSME are responsible for approximately half of LA's GDP and roughly three quarters of its employment.

The social and economic reality in Latin America shows that there is still a long way to go in bridging the gap between the ones that have and the ones that don't. The informal labor force is large and associated with poverty and inequality. The labor force is still growing faster than the economy. Demand for education is high, but the quality is still relatively poor, resulting in gaps in skills required to start a business or formal work at a company. Women are still the most deprived group, evidenced by lower wages, unpaid work on a more frequent basis, low participation rates in the labor force, and limited access to managerial positions.

In this context, micro and small entrepreneurs contribute a large added value to the overall GDP and job creation. Nevertheless, they have never received the attention they deserve. Most of them face every day challenges such as:

- Exclusion from value chains
- Management capabilities
- Limited market access
- Digital illiteracy
- Difficulties in obtaining financing and low financial inclusion

By addressing and overcoming these challenges, MSME will be able to increase their income, to better manage their financial risks, to provide better nutrition to their families, to give them access to health care and education, and to expand their access to valued products and services within their communities. Doing so also generates opportunities for the companies that serve these businesses, reduces their dependence on the state, and broadens the tax base.

FUNDES is a firm that designs and implements solutions to strengthen MSME throughout Latin America. These programs seek to generate efficiencies, profitability and innovation throughout the value chains, as well as a positive impact within local communities. We count on a powerful network of some 80 large corporations and governments as clients that share the need of counting on better and healthier MSME for their own purposes and requirements.

Since 1984 FUNDES has been closing the gap that MSME face for accessing financing, business management know-how as well as market- and value chain integration.

In the last decade, we have focused on integrating MSME into value chains. Low productivity, informality and underperformance of MSME is a constraint to improve value chain efficiency as a whole. At some point, this affects the performance of large corporations' procurement, logistics and distribution. This situation has created an opportunity to fulfill the purpose of FUNDES which is the sustainable development of MSME in LA. In this way, we involve large companies to invest in the improvement of smaller players in their value chain through our programs. Our current portfolio of solutions is grouped in: MSME Networks, Value Chains and Sustainable Business Ecosystems. These solutions have been successfully implemented mainly in: consumer goods (procurement and distribution), traditional retail business, metals (recycling), mining, oil and gas and financial services.

Recent technological advances, increasing internet access, and rising educational needs mean that the time is ripe for an online learning platform that targets capacity building for MSME and benefits the most vulnerable population groups in the region. The widespread penetration of smartphones has resulted in a rapidly growing number of internet users. Investments and innovations in the telecommunications industry have also led to a healthier business climate for start-ups, often accompanied by significant venture capital investments.

New technology provides new opportunities for MSME. With access to internet the global world opens up for them: from receiving information, education and knowledge, to getting access to new (even international) market places. A small retailer connected to the internet can now start global e-commerce activities in a relatively simple way compared to the past.

While this situation is not automatically benefitting "traditional" MSME, opportunities for such businesses have become apparent. New, more affordable technologies can increase output, ensure efficiency, and save costs. These conveniences are all suitably available on smartphones. More expensive software or devices, such as laptops and desktops, are no longer necessary for doing business.

FUNDES foresees several challenges for the upcoming years:

- In the last decade, FUNDES has reached out to some 450,000 MSME. However, there are over 20 million of them in Latin America. At the current rate, it would take centuries to reach at least half of them. And on the other hand, the current approach based on training and face-to-face consulting makes it financially unviable for our clients, i.e. large corporations and governments, to multiply the scope.
- Throughout its history, FUNDES has been a trendsetter. That is to say that after a few years of using a certain approach (e.g. guarantee funds, micro credits, training, consulting, value chains) other companies and organizations often reproduce the FUNDES model to the point of turning it into a commodity. This has begun to happen to the current model, pushing FUNDES to undertake a new transformation in order to find new ways (the "How") to support MSME and hence live up to our mission.

Therefore we are focusing our expertise and efforts on strengthening the business ecosystems in which these small businesses operate—building large networks with a range of companies, financial institutions, government agencies, academia, and other stakeholders that can offer both complementary productivity-enhancing and revenue-generating products and services as well as enabling policies and the regulatory environment in which to operate.

We are at present investing in and developing digital solutions that will allow us to compute and analyze a wide amount of information which we naturally gather in every project that we execute, throughout the LA region. We will reach more scale, and reduce the intervention costs significantly.

Segmentation of the micro and small entrepreneurs becomes increasingly important, way beyond the size and growth speed of the organization. The use of technology linked to specific sectors promises to generate a high added value that will be included in capacity building initiatives which must go beyond business skills.

In the years to come we are going to further expand our current field of action because we have realized that MSME ecosystems in emerging economies in Africa and Asia (e.g. Egypt and India) face similar constraints and challenges. What we need to do now is to strengthen our business relations and to share our expertise way beyond the Latin American region.

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