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What is holding back the implementation of the 2030 Agenda?

Insights from the United Nations Committee for Development Policy

No. 4 – The inadequacy of mechanisms to help channel capital and know-how to SMEs

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Ahead of the SDG Summit in September, members of the United Nations Committee for Development Policy, a subsidiary body of the Economic and Social Council (ECOSOC), reflect on the factors that are holding back implementation of the 2030 Agenda for Sustainable Development and what can be done about them.

One factor holding back the implementation of the SDGs is the absence of better mechanisms to help channel globally available capital and know-how to support the development of small and medium enterprises (SMEs).

It is well-known that SMEs are an important generator of employment and innovation, and significant efforts are invested in helping them overcome their limitations. However, as historically development has come through the conquest of technologies with ever-larger increasing returns to scale, SMEs have generally been only able to complement, rather than independently contribute, to a country's development. Technology today may be changing this in more than one way.

SMEs true shortcoming is in the transaction costs that enter the upstream and downstream segments of most global value chains. Otherwise, they have an advantage over large companies in the production of customized solutions and the capacity to respond flexibly and creatively to specific problems - characteristics likely to be increasingly in demand. On the one hand, for the potential buyer/funder, the costs of identifying, reaching and monitoring a supplier/beneficiary are generally higher if this is a small company. Similarly, for the SME itself the costs of acquiring market and technology intelligence as well as of accessing markets, are proportionally much higher than for a large company. In both cases, the per unit search/transaction costs will be much higher for the SMEs. Thus, policies to support SMEs are designed to circumvent these transaction costs "horizontally" - offering subsidies, training or guarantees without distinguishing among sectors or businesses.

However, technology today is radically reducing not only the costs of coordination and remote communication, but also of monitoring quality and specific product characteristics. An SME today can reach customers directly on the global market. For example, we estimate that over a third of Serbia's fast-growing exports is by indigenous SMEs and a significant share consists of customized goods, in which the company and the client (typically a manufacturer of producer goods) found each other directly. About one-half is in no-frills agribusiness. This opens the opportunity to help reshape value-chain hierarchies and multiply the opportunities for propulsive SMEs (not only, nor even primarily, innovative technology startups) to participate in them.

At the same time, the destruction of jobs and middle classes that technology is causing is increasing the importance of the opportunities that SMEs offer for inclusive growth, as well as for the development of indigenous economies.

Reshaping supply chain hierarchies needs and deserves to be helped with an SME-adjusted industrial policy. This, in turn requires more knowledge of the type and nature typically developed for larger firms by international consulting companies; knowledge focused on industry-specific trends and the accumulation of market and technology intelligence, as well as of a growing understanding of company (in this case SME) needs and opportunities. Public funds should be used to help develop both the supply and demand for such knowledge, and as it accumulates it should be made available to all participants in the relevant value-chain ecosystems - thus distributing the costs.

Fulfilling the potential of SMEs for development requires industrial policy that reflects the opportunities and challenges of new technologies and that is based on knowledge of industry-specific trends.