

Finn Church Aid Group Submission to FfD4 Elements Paper

Finn Church Aid (FCA), in ECOSOC Consultative Status since 2016 (with its name in Finnish, Kirkon ulkomaanavun säätiö) wishes to thank the Co-Facilitators and UN DESA for their leadership and the opportunity to contribute to the FfD4 Elements Paper.

The 4th Financing for Development Conference has the urgent need to reform the international finance architecture fit for purpose to address urgent challenges of 21st century to support addressing climate change, eradicating poverty and achieving Sustainable Development Goals.

While FCA supports the urgency to address tax and debt crisis related issues, our submission concentrates on **the need for specific negotiations focus on Small and Medium Sized Enterprises – an SME-track crossing all proposed action areas**. Our submission first responds to the guiding question set by the Co-Facilitators and proceeds with more detailed input to follow.

GUIDING QUESTION: What are the key financing policy reforms and solutions that the fourth International Conference on Financing for Development should deliver?

In emerging markets 7 out of 10 formal jobs are created by Small and Medium Sized Enterprises. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies ([World Bank](#)). Still, many of the SMEs do not survive beyond five years, and those who do are not able to grow their business. Estimates put the annual financing gap of SMEs in developing countries.

The importance of SME agenda was recognized by Addis Ababa Action Agenda:

“We note that micro, small and medium-sized enterprises, which create the vast majority of jobs in many countries, often lack access to finance. Working with private actors and development banks, we commit to promoting appropriate, affordable and stable access to credit to micro, small and medium-sized enterprises, as well as adequate skills development training for all, particularly for youth and entrepreneurs.”
(AAAA, para 16)

In the latest outcome document from forum on financing for development it was repeated:

“We will take steps to ensure and improve the access of micro-, small and medium-sized enterprises to finance, including trade finance, and increase their participation in international trade and investment and the digital economy” ([E/FFDF/2024/L.1](#))

Ten years after Addis Ababa Action Agenda commitments and repeated commitments ever since, SME-agenda has not moved forward:

- SMEs still struggle with access to finance while it is much easier to mobilize \$10 million rather than \$100.000 investment – smaller tickets very much needed SMEs with growth ambitions.
- Access to global value chains or domestic public procurements are challenging.

- Many SMEs lack necessary systems and skills for efficient management.
- SMEs that commit advancing sustainable development and fight corruption are still disadvantaged.

It is important to note that the planning process towards FfD4 has recognized the need to prioritize the SME-sector. During the PrepCom1 meeting in Addis Ababa in July 2024, Morocco called for stronger support to SME's ("Le renforcement du soutien aux petites et moyennes entreprises (PME), en facilitant leur accès au financement et en leur dotant de mesures favorables à la compétition et à la création de l'emploi et de la valeur ajoutée.") and Tanzania noted that "Supporting youth entrepreneurship by improving access to finance for micro, small, and medium enterprises (M/SMEs) through innovative financial structures and risk mitigation instruments is crucial."<https://financing.desa.un.org/preparatory-process-ffd4/first-prepcom/statements>

Furthermore, during a formal side-event at PrepCom1, organized by the African Union Commission and Finn Church Aid, entitled "Growth-oriented SMEs as an opportunity to sustainable development", several UN Member States, entrepreneurs and NGOs endorsed the call for, and commitment to work jointly towards an SME-track to FfD4.

The FfD4 needs to provide for a credible, systematic and broad mechanism to address SME-development as part of financing for development process. Prioritizing SMEs ahead, during and after FfD4, necessitates a dedicated SME track.

The mechanism needs to address internal and external barriers to affordable financing of SMEs, but also other barriers such as SMEs' investments readiness, enabling regulatory frameworks and adequate SME-data from developing countries. The focus needs to be on sustainable and growth-oriented SMEs and their ecosystems; it needs to build on existing research; it must have the needed structural transformation and productive capacities of the developing countries at the center. It needs to provide guidance towards ways to provide competitive edge to those SMEs that commit advancing sustainable development and fight corruption. Inclusivity needs to be at the core of the deliberations, including special means to address financing and obstacles that female entrepreneurs face in LDCs and other developing countries.

There is wide support for SME-agenda among Member States, investors, international organizations, with SMEs themselves and civil society. This agenda has vast potential to boost sustainable development and dynamism of local economies in developing countries – it should be engaged with ambition and not let it be drowned by more fraught issues.

GUIDING QUESTION: How could the Conference strengthen the follow-up process, to ensure accountability to and full implementation of commitments made?

The SME track is essential for the Fourth International Conference on Financing for Development because it addresses the large systemic challenges that SMEs face.

While throughout the Financing for Development process, there has been commitments to support SMEs, a tangible and coordinated mechanism to address the challenge is lacking, and this is among the gravest missed opportunities in the whole FfD process and for the realization of the SDGs.

This situation calls for a new level of collaboration between supply-side (financial institutions, governments, and development finance institutions) and demand-side (SMEs themselves, local communities) actors. Effective solutions require stakeholders to come together at the design stage, ensuring that financial mechanisms, regulations, and support services are tailored to the specific needs of SMEs. This proactive, coordinated approach can bridge the gap between financial institutions and SMEs, fostering innovations in financial products, risk mitigation, and capacity building while making the SME sector more attractive and accessible to both domestic and international investors.

The FfD4 and its outcome document are means to an end. In practice this means that work on structurally supporting the thriving of sustainable, growth-oriented, impactful and transparent SMEs should not and cannot be dependent on Sevilla only. This is why LDC-SMEs, FCA, several UN Member States and SME-ecosystem actors in developing countries have called for a dedicated SME-track in the planning of the FfD4. Such prioritization needs to be built before and continue beyond Sevilla.

The content and structure of the SME track ahead of FfD4 and beyond should be defined collectively, by the participating Member States, UN agencies, investors, civil society actors, organizations representing SMEs and private sector. It is through such structure that also FfD4 follow-up, implementation and commitments can be credibly followed-up. **FCA suggests that the SME track outcomes should be followed in a dedicated manner during the upcoming annual follow-up mechanisms to FfD4.**

The argument for an SME-track towards FfD4 and beyond can be summarized as:

Small and Medium Sized Enterprises (SMEs) in developing countries are an opportunity for the needed structural transformation; creation of sustainable jobs, locally led income generation, and for the global private sector actors. The development community, local Governments and private sector actors alike have drastically failed to live-up to the commitments towards SME sector made through the Financing for Development process. To move from aspirations towards leveraging impact, FfD4 process needs to adopt a dedicated SME track that

- **Builds on the previous commitments**
- **Establishes formal mechanism to ensure that FfD4 and the planning process can build on the latest research on SME financing and SME-ecosystem development**
- **Involves all key actors from the supply and demand side, public, private and NGO sectors, including the SME entrepreneurs**

What are some of the substantive issues around the SME-track?

The key substantive issues need to derive from the past and ongoing discussions and ensure an appropriate balance between supply and demand side of the SME and SME-

ecosystem financing. Based on earlier discussions with multiple actors, we suggest considering at least these issues in SME track deliberations:

a. Domestic public resources

- **Strengthening Public Sector Procurement for SMEs:** Governments also in developing countries spend billions of dollars that can be used to boost growth of sustainable development-oriented SMEs. Governments should implement procurement policies that specifically favor SMEs, integrating them into public contracts and supply chains. This will help SMEs expand their market reach, drive innovation, and contribute to sustainable economic growth and job creation.

b. Domestic and international private business and finance

- **Creating Specific Development Finance Mechanisms for SMEs:** Access to finance is one of the most significant barriers to SME growth. There is a need to design development finance mechanisms specifically targeting SMEs, including blended finance models and de-risking solutions that are tailored to the unique challenges faced by SMEs. These mechanisms will unlock SME potential to expand, create jobs, and contribute to local and global economies.
- Collaborative for Frontier Finance has provided a good overview about the issues and potential solutions for capital mobilization that reaches SMEs:
<https://www.impact-taskforce.com/media/d3kkcqxv/cff-itf-2023-input-paper.pdf>
- **Engaging Public and Private Sectors in SME Financing:** Collaboration between financial institutions, governments, and SMEs is essential to close the SME financing gap. Well-informed reforms, developed through active dialogue with the SME-sector, will help create financial services that better meet SME needs, promoting growth and development.

c. International development cooperation

- **Capacity Building Across Diverse SME Sub-sectors:** The SME-sector is diverse, ranging from informal to formal, traditional to innovative enterprises. Tailored capacity-building programs are needed to address the specific needs of different SME-types, enhancing their ability to grow, comply with regulations, and provide stable, long-term employment.
- **Addressing Corruption and Supporting SMEs in Vulnerable Contexts:** Tackling corruption and improving transparency within the SME-sector is critical for fostering sustainable growth. SMEs that operate transparently should be incentivized, particularly in fragile and vulnerable contexts, to set standards for ethical business practices and sustainable development.
- **Supporting Women Entrepreneurs in the SME-sector:** Gender inclusivity is vital for the growth and resilience of the SME-sector. Targeted financial and capacity-building support for women entrepreneurs will enhance their contributions to

innovation, job creation, and economic development, while also addressing the unique challenges they face.

d. International trade as an engine for development

- **Leveraging Big-Small Company Linkages for SME-growth:** Strengthening linkages between large enterprises and SMEs within ecosystems and supply chains can provide SMEs with market access, technological advancements, and opportunities for innovation. Such partnerships are crucial for driving SME-sector growth, productivity, and job creation.

f. Addressing systemic issues

- **Promoting Decent Jobs and Economic Growth Through SMEs:** SMEs play a critical role in generating employment and fostering decent work opportunities, particularly in LDCs. Targeting SME-financing towards job creation, compliance with human rights, and labor standards is essential for maximizing their impact on sustainable development and the SDGs.

g. Science, technology, innovation and capacity building

- **Enhancing Technological and Digital Innovation for SMEs:** The SME sector must embrace digital and technological solutions to improve efficiency and competitiveness. Governments and private sector actors should promote and invest in digital tools that empower SMEs to expand into new markets, optimize operations, and contribute to sustainable job creation.
- **Improving SME-Specific Data Collection and Evidence in LDCs:** There is an urgent need to enhance the availability and quality of SME-specific data, particularly in LDCs. Establishing dedicated data series, such as through UNCTAD, can provide better insights into the SME-sector's performance, financing needs, and growth potential. Improved data collection will support evidence-based policymaking, enable targeted financial interventions, and promote the development of tailored support mechanisms for SMEs.

What are the expected deliverables at the FfD4 relating to the SME-track

While emphasizing and understanding that process – also beyond FfD4 – is more important than single announcements and pledges, as part of the SME-track, commence collecting suggested SME-related deliverables early on. This helps various stakeholders to build synergies, align action and strengthen the impact of the SME-track.

We expect that

- SME track deliberations are recognized in the outcome document of the conference and the process provides real world outcomes that live beyond the outcome document of the conference.

- FfD4 witnesses concrete SME financing related pledges, such as
 - A unique alignment with and buy-in by international and local SME-ecosystem actors regarding the prioritization and coordination of targeted SME financing.
 - A new pact by multinational enterprises and SME-ecosystem actors in LDCs, to align efforts and fostering both development impacts and sustainable business opportunities.
 - Concrete new openings for both financiers and SMEs, such as a launching of a dedicated SME-fund specifically targeted to LDCs and challenging contexts.
 - Establishment of systematic SME-data collection, preferable through UNCTAD, to support action by public and private sector alike.