

## Abuja Declaration

### Promoting SMEs for Global Competitiveness

22 July 2004

**Ministers, other government representatives, members of the business community, civil society and international organizations,**

*Recognizing* that in both developed and developing countries, SMEs constitute the majority of enterprises, employ most of the labor force, generate the largest share of GDP and contribute to exports;

*Realizing* that the Millennium Development Goals to eradicate poverty, to promote gender equality and to develop global partnerships cannot be achieved without a dynamic and vibrant SME sector;

*Acknowledging* that many SMEs do not reach their full potential but rather remain small, employing less than five persons, isolated and hence uncompetitive because they lack access to information, markets, capital and technology;

*Further recognizing* that globalization and trade and investment liberalization will continue and that SMEs and many developing countries, particularly in Africa, are being further marginalized in this process;

*Noting* the Istanbul OECD Ministerial Declaration (June 2004) on fostering the growth of innovative and internationally competitive SMEs and

*Drawing attention* to the recent report of the World Commission on the Social Dimension of Globalization, A Fair Globalization: Creating Opportunities for All;

*Reaffirming* the recommendations of the Tel Aviv Declaration (2003) and WASME's commitment to promoting effective SME policies and programmes;

## **Recommend the following concerted actions be taken by**

### **I. All Governments**

Governments have a responsibility to establish appropriate frameworks in which development can take place. It is incumbent on all governments to create an enabling environment for SME development by putting equal emphasis on their macro policies and their micro policies.

With regard to SME-friendly policies all governments need to

1. Facilitate continuous policy dialogue with the private sector for policy, programme and strategy design and development;
2. Design low-cost legal and administrative mechanisms that encourage informal businesses to shift to the formal sector so that they can interface productively with creditors, investors, public services and international markets;
3. Restructure the legal framework so that contracts can be enforced, property rights are respected, and companies that default on their debts will go through orderly bankruptcy procedures. In this way SMEs have an incentive to operate under the rule of law and have their assets and transactions officially recorded;
4. Invest in public infrastructure particularly the IT infrastructure needed for e-business;
5. Mobilize human resources to promote entrepreneurship by integrating entrepreneurship into formal education and continuous education;
6. Assist women entrepreneurs by removing any legal and cultural impediments to their accessing resources and undertaking transactions;
7. Partner with private business sector associations and organizations in establishing effective SME support systems.

## **II. African Governments**

In a globalizing world, Africa is the continent most marginalized. It has yet to benefit from globalization; its share of world trade and investment is a mere 2 percent. Of the 49 least developed countries in the world, 70 percent of them (34) are on the African continent. With globalization and liberalization the gap between these countries and the developed world is widening which need not be the case. If the gap is to be narrowed and poverty reduced, African Governments must build a strong, SME sector. Their highest priority must be to raise the productivity of the informal economy and to integrate it into the economic mainstream. Furthermore, in order to facilitate enterprise creation, business registration should be simplified and decentralized, thus eliminating the link between high administrative burdens and corruption.

In particular African governments need to

1. Establish a dedicated Ministry for micro, small and medium-sized enterprises (MSMEs) where they have not yet been established;
2. Cut the cost of business registration, licenses and other approvals by establishing a one stop-shop for SMEs;
3. Simplify the tax regime for SMEs;
4. Create an SME development fund for capacity-building;
5. Create incentives for the banking community to do business with SMEs including requiring disclosure of bank loan portfolios, applying lower tax rates to profits arising from their SME portfolios, and providing credit and investment guarantees;
6. Encourage international financial institutions to accelerate the dissemination of best practices on financial innovations for SME financing and ensure that when financial schemes and funds are put in place for SMES, they have access to them;

7. Encourage foreign investors and large enterprises to establish linkages with SMEs;
8. Assist African women entrepreneurs in the acquisition of appropriate technologies and processing skills for food, craft and artisanal products so that they meet international standards; in this context cooperation should be initiated with relevant international organizations;
9. Allocate at least 25 percent of public sector procurement to SMEs;
10. Request NEPAD to give higher priority to SMEs.

**III. Business community, including banks, business associations and business service providers**

The business community, including SME associations, must act as advocacy groups for the appropriate SME policies. In addition they should provide services that will enhance the competitiveness of their members. They are better able than the government to provide these services since they are closer to their clients and know their needs. In particular, they can promote clustering among small enterprises and linkages between large and small enterprises. High tech clusters and linkages to global supply chains can improve export competitiveness. The business community should also cooperate with central, regional and local governments in rendering effective support to SMEs, particularly in the fields of upgrading managerial capacity, product quality improvement, and exports.

SME associations can

1. Participate in policy dialogue with national government to review existing policies and to propose new ones as the case may be;
2. Network with other business associations worldwide;
3. Provide business services to their members especially women entrepreneurs.

Business service providers can

4. Enter partnerships to reduce the perceived risks and transactions costs of banks by assisting them in the pre-credit appraisal of SMEs seeking loans and monitor their repayment.

#### **IV. International organizations**

International organizations which formulate the global rules and policies for trade, investment and finance must allow more space for national policy autonomy. The policies of international organizations and donor countries must take into consideration that not all countries have the same capabilities. International organizations must not assume that enterprise and job creation automatically follow from the macro policies to foster trade and investment. Micro policies and programmes are also needed.

It is the international community that has created a situation where developing countries must produce and sell “at third world prices but first world standards”. Therefore, they must assist governments with policy advice and programmes. African governments, with the help of international organizations and donors, should make all efforts to lower the share of exported commodities and raw materials and deepen the local production so as to retain a greater portion of the added value within the home countries. Exporting finished products instead of raw materials will increase substantially the domestic income. SMEs can play an important role in this development if given the proper support and guidance.

The 15th International Conference on SMEs calls upon the international community to under take the following action to promote SMEs for global competitiveness:

1. ITC: continue to assist SMEs to improve their market access and export competitiveness.
2. OECD: develop a programme on SME statistics, study the impact of value chain management on SMEs, disseminate best

practices in promoting women entrepreneurs worldwide, monitor SME trends and publish the SME Outlook.

3. UNCTAD: continue to support and expand state of the art business development service programmes that enhance the ability of SMEs to trade and partner with foreign investors and large enterprises;
4. UNDP: adopt a comprehensive approach to achieving the Millennium goals that includes social and SME development;
5. UNIDO: continue to promote the competitiveness of SMEs by helping them meet the international standards.
6. WIPO : ensure that intellectual property rights (IPRs) are not used as a non-technical barrier to trade; ensure that traditional knowledge is afforded the same protection as intellectual property in the developed countries; intensify efforts to ensure that SMEs in developing countries gain a deeper understanding of IPRs and how they can work for SMEs' benefit.
7. World Bank Group: disseminate more widely including to SME business associations the results of the World Bank study, Doing Business in 2004 to encourage governments to address burdensome regulations;
8. WTO: assess the impact of current and future agreements on SMEs as well as provide technical assistance so that developing countries have the capacity to abide by the international rules without jeopardizing their ability to promote sustainable development.

## V. WASME

As WASME is a leading international force for SME development, it should work toward implementing the Abuja declaration during the coming years by

1. Disseminating the declaration as widely as possible;
2. Monitoring Governments' response to the declaration especially noting the follow-up actions and reporting back at the 16<sup>th</sup> annual conference;

3. Assisting SME associations to engage in policy dialogue and advocacy and
4. Facilitating SME networking through an electronic portal.

WASME places on record its deep appreciation to the President of Nigeria, Chief Olusegun Obasanjo and the Minister of Industry and his staff for hosting the 15<sup>th</sup> International Conference of SMEs. WASME acknowledges Nigeria's renewed dedication to WASME ideals and goals—most of all to building a dynamic, vibrant SME sector in Nigeria, in Africa and worldwide.