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MSMES: GROWTH, JOBS CREATION AND POVERTY REDUCTION

Micro-, small- and medium-sized enterprises (MSMEs) make up 99.5% of firms in Latin America and the Caribbean (LAC), with almost 9 out of 10 being classified as micro-enterprises, and they account for 60% of formal productive employment. However, while it is normal, globally, for MSMEs to display lower productivity levels than large firms, these companies exhibit a particularly significant productivity gap in LAC, being responsible for only one quarter of the region's total output.

MSMEs participate in sectors with low aggregate levels of value added and low levels of human capital, competing in markets with poorly differentiated products (such as retail trade, tourism and agriculture). The large informal sector is an integral part of the region's economic structure and how the MSME sector operates has far reaching implications for the region's social and economic development.

The significance and potential contribution of MSMEs to the **Sustainable Development Goals (SDGs)** is linked to their relevance in economic activities, especially in the generation of employment. MSMEs are particularly important for poverty reduction, especially in rural areas and amongst women and other socially disadvantaged groups. MSMEs are taking a leading role in helping to meet most of the economic-related SDGs, including promoting inclusive economic growth, increasing employment opportunities, especially for the poor, advancing industrialisation, and creating positive momentum towards higher quality of life, better education and good health for all. The SDG

targets call for support to the private sector in adopting new business models, bringing in innovation/technology, expanding markets, generating quality jobs and doing business more sustainably. This opens new business opportunities for MSMEs.

The European Union (EU) works closely with LAC governments, helping them to develop and implement policies in support of private sector development, with a particular focus on strengthening MSMEs. EU support for MSMEs is targeted at increasing productivity, accelerating investment and creating decent jobs. Some of the EU initiatives co-finance market-based schemes for MSMEs. These are also designed to give businesses access to business support services from local providers, including intermediary organisations, incubators, informal self-help organisations and cooperatives, to increase their management skills, technological know-how and their market linkages in the formal and informal sectors.

The EU finances private sector development through the **Latin America Investment Facility (LAIF) and Caribbean Investment Facility (CIF)**. One of the strategic goals of these facilities is to promote equitable and sustainable socio-economic development through support to MSMEs. These projects contribute to economic development, job generation, poverty reduction, environmental protection and combating climate change.

In addition, the use of blending grants and risk capital allows the EU to leverage additional funds to provide financial

support for MSMEs, while at the same time supporting cross-cutting issues, such as renewable energies, energy efficiency, agriculture and the protection of nature, among others.

The EU remains LAC's most important development partner, with several regional and bilateral programmes targeting the development of MSMEs. The EU regional programme AI-Invest has been supporting the development of productive entrepreneurship and helping MSMEs to work together, promoting integration, social inclusion and decent employment opportunities. In addition, the EU has supported the Caribbean Export Development Agency with funding to provide much needed financial support to MSMEs across 15 Caribbean countries.

The EU's regional support for MSMEs currently focuses on business linkages (including networks, clusters and value

chains), clean production and local economic development to improve their productivity. There is a particular focus on activities that help foster innovative practices and a culture of constant learning.

Additionally, in LAC the Covid-19 pandemic has had a dramatic impact on the most vulnerable and marginalised. Microenterprises have been hit particularly hard: 2.7 million of them are likely to close, entailing the loss of 8.5 million jobs. In response, the EU wants to boost digital transformation to help LAC economies out of the crisis by stimulating business innovation and new consumption models, transforming production systems and value chains, re-organising economic sectors and introducing new competitive conditions. Digital tools can also support better access to services, including finance.. This transition will be a priority for LAIF and CIF in the future.

Main challenges and way forward



Mobilise private sector financing: To close the financing gap to achieve the SDGs, LAIF and CIF will mobilise more finance from/to the private sector. More private investment is needed in green and digital innovative businesses, and sustainable infrastructures that benefit disadvantaged communities and environment.

Generate new business models: Bringing in innovation/technology and doing business differently in more sustainable and fairer ways. Investing in technical assistance, digitalisation processes and infrastructure to help MSMEs optimise their production, improve value chains and promote environmentally friendly performance.

Market-based schemes and policies for MSMEs: Promoting support services supplied by local providers, including business intermediary organisations, incubators, informal self-help organisations and cooperatives, to increase management skills, technological know-how and market linkages for MSMEs in the formal and informal sectors.

Indicators

 Number of projects:
12


 Total number of beneficiaries:
1,104,467

 Number of jobs created or supported:
352,653

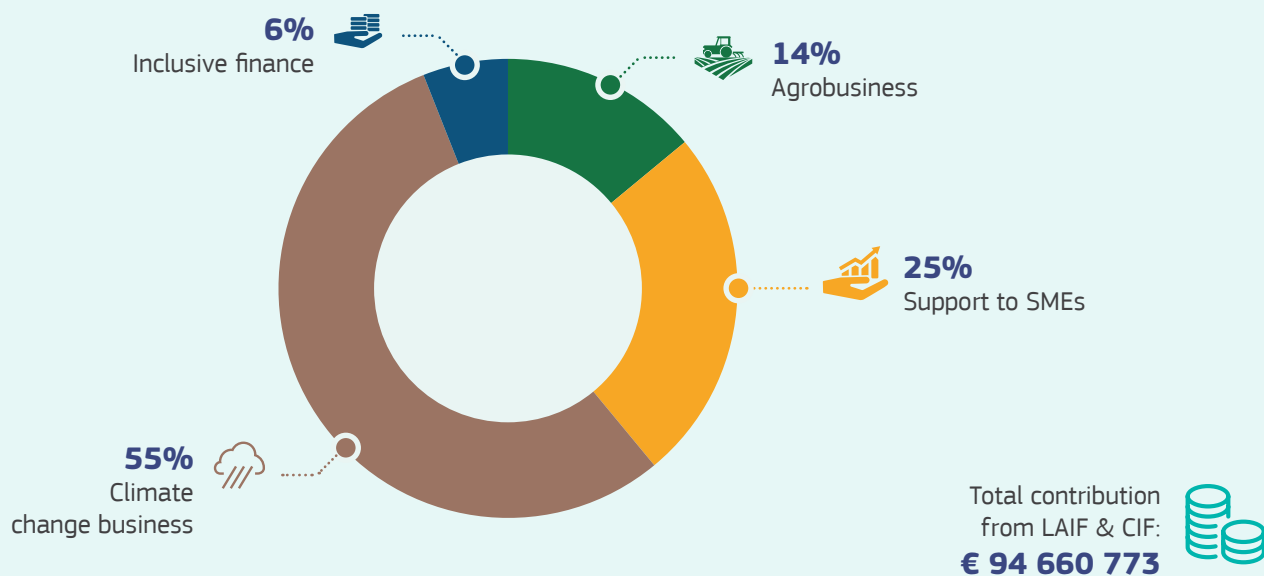
 Greenhouse gas emissions reduction:
5,559 CO₂ kt
equivalent/year

 Number of SMEs strengthened:
39,249

 Number of women supported:
15,164

 Number of MSMEs that have adopted green production practices:
988

LAIF and CIF contribution per sector



Bilateral and multi-country projects

<https://www.eulaif.eu/en/projects>

<https://www.eu-cif.eu/en/projects>

This fiche was prepared with the most recent information and data available from the banks under their contractual responsibility fully to inform LAIF promptly about the developments in the projects.

