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# Contributions of Micro-, Small and Medium-sized Enterprises (MSMEs) to the Sustainable Development Goals (SDGs), as reported in Voluntary National Reviews (VNRs), 2020



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## 1. Introduction

Micro-, small and medium-sized enterprises (MSMEs) play vital roles in driving economic growth, creating employment opportunities, and promoting income growth and sustainable livelihoods. MSMEs also make important contributions to improvements in the quality of life, affordable education and the elimination of poverty, hunger and inequalities. Further, they are becoming a critical focus in sustainable development strategies adopted by national Governments globally. Through an examination of voluntary national reviews (VNRs) submitted in 2020, it was found that several include narratives centred on how MSMEs contribute to achieving the Sustainable Development Goals (SDGs). Those reviews also elaborate on challenges and constraints faced by MSMEs in the effort to fully unleash their potential in implementing the 2030 Agenda for Sustainable Development,<sup>1</sup> especially during the period that began with the outbreak of the COVID-19 pandemic. The countries that provided national reviews include Argentina, Austria, Bangladesh, Benin, Brunei Darussalam, Bulgaria, Burundi, the Comoros, Costa Rica, the Democratic Republic of the Congo, Estonia, Finland, the Gambia, Georgia, India, Kenya, Kyrgyzstan, Liberia, Malawi, Micronesia (Federated States of), Morocco, Mozambique, Nepal, the Niger, Nigeria, North Macedonia, Papua New Guinea, the Republic of Moldova, the Russian Federation, Seychelles, Slovenia, Solomon Islands, Trinidad and Tobago, Ukraine and Zambia.

## 2. Country reporting on the contributions of MSMEs to the SDGs

The present section considers the VNR narratives that portray how MSMEs contribute to individual SDGs, particularly Goals 1, 2, 4, 5, 7-10 and 17, among others. Also discussed in this section are the specific policies and programmes that provide support for the contributions of MSMEs to the Goals.

### SDG 1: No Poverty

MSMEs are recognized by Austria, Brunei Darussalam and Bulgaria as forming those countries' "economic backbone", and by Bangladesh, Liberia, Micronesia (Federated States of), Solomon Islands and Zambia as contributing to poverty reduction. As reported by Liberia, MSMEs in that country are contributing to a reduction in "income poverty across regions" and to growth of the private sector "to absorb new entrants into the labour market". As reported by Zambia, supporting rural-based MSMEs is considered one of the country's four strategic interventions necessary to "eradicate extreme poverty and hunger". As indicated by the Federated States of Micronesia, the Coconut for Life initiative in that country has supported small business enterprises at the village and community levels as key platforms for poverty reduction in rural areas. Likewise, the Solomon Islands Rural Development Programme under the auspices of the National Development Strategy 2016-2035 has delivered 330 community infrastructure projects and 35 agriculture partnerships projects designed to alleviate poverty and improve livelihoods in rural areas.

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<sup>1</sup> General Assembly resolution 70/1 of 25 September 2015.



## SDG 2: Zero Hunger

MSMEs in Ukraine, especially those in the agriculture sector, are reported as necessary to “ensure progress in implementation of all the SDG 2 targets”. A policy initiative of the Government of Papua New Guinea, which provides 300 million kina (PGK 300 million) in support to MSMEs, includes a package of PGK 200 million earmarked for agriculture-based MSMEs to enable them to increase their access to sustainable agriculture and expand their contributions to the daily dietary and food preference requirements of the people of Papua New Guinea.

## SDG 4: Quality Education

MSMEs have become contributors to progress in achieving SDG 4. The Democratic Republic of the Congo has reported that MSMEs are fulfilling their social responsibilities through the provision of collective funding for the building of 829 schools, the rehabilitation of 684 classrooms and the installation of 175 school canteens, thereby expanding the access of poor children to educational opportunities. Countries such as India report that educational reforms supported by MSMEs are currently under way. The aim of those reforms is to revamp the educational and vocational training ecosystem by reorienting the skilling curriculum towards meeting the demands of industries.

## SDG 5: Gender Equality

Countries have reported gender equality as being a focus of MSME-related policies and programmes. For example, in the Republic of Moldova, a “women in business” programme was launched to enhance business skills among women entrepreneurs, while in Slovenia the aims of enhancing employment possibilities for women and youth and developing micro-, small and medium-sized enterprises have been packaged together to serve as one focus of the country’s development cooperation strategy. Bangladesh has reported that the European Union-funded Poverty Reduction through Inclusive and Sustainable Markets (PRISM) programme is being implemented by the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the country’s Ministry of Industries. The programme, which targets young women and people with disabilities in the light engineering sector, has provided opportunities for 10,000 disadvantaged youth to enhance their employable skills and secure decent employment.,.

## SDG 7: Affordable and Clean Energy

MSMEs are recognized in Argentina, Austria and India as providing leverage for boosting energy efficiency, while in Nepal, they are viewed as vehicles for disseminating the adoption of renewable energy solutions. Through the creation of Argentina’s Energy Efficiency Fund, funding support has been provided to MSMEs that have presented proposals for investment aimed at improving energy efficiency. The Federal Government of Austria seeks to promote energy efficiency potential at all levels, especially in the building and transport sectors and among small and

medium-sized enterprises. Nepal's Alternative Energy Promotion Centre (AEPCC) was established to promote the dissemination of renewable energy solutions throughout the country.

## SDG 8: Decent Work and Economic Growth

In the VNRs, the Goal most often cited within the context of reported contributions of MSMEs to the Sustainable Development Goals is SDG 8, which is mentioned by 18 countries, including Benin, Brunei Darussalam, Bulgaria, Burundi, the Comoros, the Democratic Republic of the Congo, Estonia, India, Kyrgyzstan, Liberia, Morocco, Mozambique, Nepal, Nigeria, North Macedonia, the Russian Federation, Seychelles and Trinidad and Tobago.

North Macedonia reported MSMEs as being the dominant enterprise category in that country and Seychelles characterized MSMEs as vital for development. MSMEs, which make up the majority of business entities and engage the largest share of the workforce in these two countries, are supported by a multitude of policies and programmes in areas such as access to finance and strengthening of business skills. The aim of this support is to improve the contributions of MSMEs to the generation of decent jobs, employment opportunities and economic growth.

Countries frequently launch microfinance-related policies and programmes to expand the access of MSMEs to finance. For example, Kenya's Microfinance Act was adopted to facilitate ease of access of MSMEs to financing provided by financial institutions. The act provides for the licensing of deposit-taking microfinance institutions, which has strengthened their capitalization and has enabled them, through the acquisition of additional financial resources, to offer lending to MSMEs in an effective manner. Specific microfinance programmes are also being implemented in countries such as the Comoros, India and Liberia. Through the Liberia Bank for Development and Investment, the Government of Liberia has released US\$ 3 million for microfinance loans to support the growth of MSMEs, especially those led by women and youth. As reported by India, microfinance institutions are receiving liquidity support from the Government during the COVID-19 pandemic to enable them to maintain their viabilities as important sources of funding for MSMEs.

Alternative measures have also been found to alleviate the liquidity constraints of MSMEs. For example, with its flexible collateral requirements, Bank Usahawan, established in Brunei Darussalam in 2018, provides diverse financing solutions for MSMEs which match their specific needs. A law for the promotion and development of SMEs, which was adopted by Benin in 2020, stipulates tax exemption for SMEs with turnover of less than CFAF 2 billion as a means of bolstering their working capital. The goal of financing MSMEs with a view to employment creation is included in the Malawi Financial Sector Development Strategy II (2017-2022). The Government of Burundi plans to provide support to MSMEs through concessional loans and to improve the access of MSMEs - especially those in the crafting and manufacturing sectors - to financial resources and services.

The launching by both national and local governments of a number of business skills development and training programmes with a focus on strengthening those skills have been reported. For example, the city government of Tallinn (Estonia) has provided micro- and start-up enterprises with comprehensive business development services - including business advice, training opportunities and financial support - to enable rapid completion of product development and acceleration of the process of bringing products to market. Training modules have been provided for establishing and managing the interdisciplinary teams needed to scale up business operations. In Seychelles, manuals and booklets outlining entrepreneurship skills - with titles such as "Five steps to starting your business" and "What is an entrepreneur?" - are being distributed to help raise awareness and foster entrepreneurship and business skills development among the general public. The integration of business skills development programmes with MSME financing solutions has been reported. For example, in addition to supporting the access of youth entrepreneurs to financial resources, the Government of Morocco, through the Integrated Programme for Enterprise Support and Financing launched in January 2020, provides business skills training to informal sector workers in rural areas, many of whom are young people brimming with business ideas but challenged by constraints on their access to finance.

Industrial clustering constitutes one approach to supporting MSME development. In Argentina, public industrial parks have been established to incentivize MSME growth. Under this approach, the provision of physical infrastructure is complemented by the on-site assistance offered by experts on MSME development who are dispatched to those parks to share their business experience. In Nepal, export promotion zones and special economic zones were established to strengthen the export capacity of MSMEs and their integration into global value chains.

In considering the contributions of MSMEs to SDG 8 in their VNRs, many countries have recognized MSME informality as a challenge. In the submission of Zimbabwe, it is reported that the informal sector, including MSMEs that have not registered their businesses with public authorities, employs 85 per cent of the labour force and accounts for 34 per cent of gross domestic product (GDP). Similarly, some 90 per cent of MSMEs in Mozambique are considered to be informal. Informal MSMEs employ almost 50 per cent (mostly youth) of the members of the economically active population and those so employed are subject to a high degree of vulnerability attributable to low levels of social and legal protections, unstable incomes and difficulties in accessing credit. Promoting MSME formalization has become a strategic priority in North Macedonia, as evidenced by the Government's launch of a Strategy for the Formalization of the Informal Economy (2018-2022). As reported by Nigeria, reducing regulatory discretion is recognized as a means of alleviating constraints on market entry and formalization in that country.

### SDG 9: Industry Innovation and Infrastructure

Twelve countries were found to have reported on the contributions of MSMEs to Sustainable Development Goal 9, including Austria, Bulgaria, Estonia, Georgia, India, Mozambique, North Macedonia, Papua New Guinea, the Republic of Moldova, Solomon Islands, Trinidad and Tobago and Zambia.

Countries have reported the establishment of funds, institutions and strategies to promote MSME contributions to innovation. For example, the Austrian Foreign Trade Strategy 2018 has recognized the role of MSMEs and start-ups in galvanizing progress in digitization, innovation and technology. In Bulgaria, jobs created within the information and communications technologies (ICT) sector accounted for more than one third of new jobs created by MSMEs in the period 2011-2017. To further leverage the contributions of MSMEs to innovation, the Government of Bulgaria has committed to expanding the country's ICT infrastructure. Georgia's Innovation and Technology Agency (GITA), established in 2014, aims towards supporting the formation of a business ecosystem conducive for the growth of MSMEs and the commercialization of their innovative ideas. India's Startup India flagship scheme was launched by the Government to nurture start-ups and innovation through the introduction of simplified funding application procedures. The Fund for Innovation and Technology Development established by the Government of North Macedonia offers funding to MSMEs for innovation and technology development activities. The Government of Trinidad and Tobago plans to establish a small business development council to support the establishment of a business innovation platform for MSMEs, which would strengthen innovation-driven competitiveness and productivity. In the Republic of Moldova, MSMEs are encouraged to apply eco-innovation to production processes, which would contribute to their market competitiveness and productivity.

The VNRs also consider the role of infrastructure development in supporting MSME growth. For example, the Government of Papua New Guinea is committed to expanding the country's digital infrastructure which would benefit all of the industrial sectors, including MSMEs. Developing production-based infrastructures with a focus on MSMEs has been included in the Mozambique National Development Strategy 2015-2035 as one of its pillars. As reported by Zambia, the Government's infrastructure development plan aims at opening up rural areas and facilitating business growth through expansion of the coverage of roads, telecommunications and irrigation systems.

### SDG: 10 Reduced Inequalities

Seven countries - including Bangladesh, Kyrgyzstan, Liberia, Libya, Nepal, the Niger and the Republic of Moldova - viewed MSMEs as engines for reducing income inequalities and promoting the participation of vulnerable groups, including women, youth and persons with disabilities, in economic activities.

Reporting by countries on contributions by MSMEs to Goal 10 has indicated that the majority of policies promoting support for MSMEs encompass training and skills development programmes which target vulnerable groups, including women, youth and persons with disabilities. A Self-Employment Programme was launched in North Macedonia to support improvements in entrepreneurship and management skills among vulnerable groups, including persons with disabilities and the unemployed, which would in turn facilitate their creation of small businesses and a reduction in income inequalities among population groups. Business development programmes for women and youth - including the Women in Business Programme and the National Programme for Youth Economic Empowerment - are being implemented successfully throughout the Republic of Moldova. In Libya, a national platform was established to enhance the capacity of young entrepreneurs and businesswomen to contribute to, participate in and stimulate economic growth. A programme supporting youth entrepreneurship has been included in the government policy agenda of the Niger. Kyrgyzstan has reported youth entrepreneurship as constituting “an important resource for small and medium enterprise development”, while recognizing that lack of education, inaccessibility of loans, and a low level of legal literacy are factors that hinder its growth. To support MSMEs led by poor and vulnerable citizens, the Government of Trinidad and Tobago launched the Sowing Empowerment through Entrepreneurial Development (SEED) programme which provides vulnerable groups with the funding and training needed to start businesses or improve them.

### SDG: 17 Partnership for the Goals

Four countries reported that supporting growth of MSMEs has become a focus of their development cooperation at international and regional levels. For example, the African-Austrian SME Investment Facility has been established to support investment in Africa by small and medium-sized enterprises. The Austrian Federal Ministry of European and International Affairs funded the Integrated Territorial Development Project in Kosovo, which, by providing loans and expertise, has helped about 300 micro-, small and medium-sized enterprises and individuals to develop their businesses. Support for MSMEs has been included in the development cooperation programmes of Estonia, which has engaged in cooperation with Belarus, Georgia and Ukraine towards improving entrepreneurship skills and supporting microenterprises and start-ups. Along the same lines, the goal of “enhancing employment possibilities for women and youth and the development of micro-, small and medium-sized enterprises” has been included in Slovenia’s Development Cooperation and Humanitarian Aid Strategy as one of its focus areas. The Government of Bulgaria has kick-started projects centred on developing small and medium-sized enterprises and promoting women’s entrepreneurship in Armenia and Serbia.

### 3. Challenges to MSME growth reported in VNRs

The present section examines the challenges associated with MSME growth that were reported most frequently in the 2020 VNRs, as well as the policy initiatives that were launched in response. This section also provides preliminary analyses of the policy gaps that were identified and puts forth suggestions on how to address those gaps.

### 3.1 Access to finance

Access to finance was reported as a challenge for MSME growth in almost all of the 35 VNRs that were examined. It constitutes an obstacle that compounds many of the challenges faced by informal MSMEs which are often led by vulnerable individuals and groups. Countries have reported different policy measures formulated to tackle this challenge, including financial inclusion strategies (Malawi), establishment of banking institutions with flexible collateral requirements (Brunei Darussalam) and, more frequently, microfinance-related strategies and programmes (the Comoros, India, Kenya, Liberia). However, the reports do not go as far as elaborating on how such measures will grapple with the challenge's root drivers, which include (a) lack of confidence in MSMEs exhibited by financial institutions and (b) difficulties encountered by MSMEs in opening bank accounts, maintaining credit histories and articulating loan proposals. Moreover, considering the increasing penetration of mobile Internet services among reporting countries, little evidence could be found in the reviews of how digital finance is being employed to expand access of MSMEs to finance.

In the area of microfinance, in addition to data on supply-side policies and strategies, a landscape analysis may be useful for identifying channels through which microfinance resources could be delivered to MSMEs on time. Commercial banking institutions with collateral requirements that are difficult for MSMEs to fulfil are frequently perceived as slow to respond to MSME demands for financial resources. Microfinance institutions (MFIs) - which are important funding sources for MSMEs, especially informal MSMEs - could be considered an additional channel for expanding access of MSMEs to credit. In this regard, licensing of MFIs would be a useful means of monitoring their compliance with guidelines for setting loan rates within a reasonable range.

The establishment of MSME banks with flexible collateral requirements, such as Bank Usahawan in Brunei Darussalam (box I), could be another option for expanding the access of MSMEs to credit. A trend towards establishment of MSME banks has been observed in the Association of Southeast Asian Nations (ASEAN) region, where banks of this type have been established in countries such as Cambodia, Malaysia and Thailand. MSME banks, which are frequently conglomerates with capital contributions from public development banks and private banks, are presumed to provide loans to MSMEs with more flexible collateral requirements and simpler application procedures and, sometimes, at concessional rates. Nonetheless, it remains unclear to what extent such measures have been effective in reaching informal MSMEs which constitute the majority of business entities in these countries.

#### Box I: MSME financing by Bank Usahawan in Brunei Darussalam Established in 2017

Bank Usahawan aims towards providing financial services to MSMEs in Brunei Darussalam. It provides loans for both the operating expenses and fixed assets of MSMEs. The amount of a loan for operating expenses can be up to \$500,000 with a repayment period ranging from four months to three years. The amount of a loan for fixed assets can be up to \$750,000, with a repayment period of up to eight years. Depending on the results of a risk assessment, the rate of profit can range from 6 to 10 per cent.

Apart from loan disbursement, Bank Usahawan also provides financial advice to applicant MSMEs through business relation officers. Those officers offer hands-on coaching on how to keep financial records, make cash-flow projections and demonstrate repayment capacity in application documents.

B\$ 5 million (\$3.7 million) loans were disbursed to MSMEs in 2018, with the loan portfolio of Bank Usahawan expected to reach B\$ 10 million (\$7.3 million) in 2019. The bank's business of is expanding from [[please run text into next line] the capital to other areas of the country.

At the recipient end, skills training for MSMEs geared towards improving financial literacy, handling bookkeeping and formulating loan proposals remains highly important as regards expanding their access to credit. The banking sector could consider working together with MSME development authorities and associations to enable the transfer of financial knowledge to MSME entrepreneurs through business incubation programmes. It is worth noting that while incubation programmes providing such services do already exist, they are frequently concentrated in urban and economically active areas and focus on capital-intensive sectors. The scope of training needs to be expanded so as to cover MSME entrepreneurs in rural areas and in the agriculture sector.

Access to finance at the enterprise level is a major obstacle. Additionally, financial constraints faced by MSMEs are exacerbated by a broader lack of investment in enabling environments conducive to business and value chain development. Underinvestment or limited investments in the basic infrastructure necessary for engagement in business operations and productive activities, including roads, electricity and water and sanitation systems, have slowed MSME growth, particularly in rural areas. Addressing systemic and structural rigidities requires long-term solutions with sustainable investment planning.

### 3.2 Impacts of the COVID-19 pandemic

Almost all of the 35 VNRs that were examined reported negative impacts of the COVID-19 pandemic on MSMEs, in terms of loss of sales and reduced revenues. This is particularly the case for MSMEs in the service, travel, tourism and related sectors. All countries reported the adoption of economic and fiscal stimulus packages aimed at supporting MSMEs in their efforts to weather the pandemic. Those packages comprised concessional loans, tax breaks and reductions, loan moratoriums, salary and rental subsidies and social security payments for employees. Countries also reported on e-commerce training programmes and online platforms provided in the hope of increasing digital transactions as compensation for the loss of customer foot traffic.

The VNRs offer a detailed picture of the policies enacted by Governments to provide support to MSMEs. Analyses may prove useful in assessing the extent to which MSMEs, especially the informal ones, could really benefit from those policies. Assessments may also be useful in promoting an understanding of the demands and challenges associated with the adaptive actions initiated by the MSMEs themselves in order to keep their businesses afloat (box II).

#### Box II: Measures taken by MSMEs to adapt to the COVID-19 pandemic

##### Holistic Coalition of the Willing (HoliCOW) (Philippines)

HoliCOW is a small enterprise founded by a woman entrepreneur whose main business is the design, manufacture and export of furniture and accessories sourced from local communities. HoliCOW's business was hit hard by the COVID-19 pandemic: Its operations were put on hold, with customer orders cancelled and payments delayed. Further, the closing of bazaars and trade fairs deprived the company of its usual marketing channels. To adapt to the challenges presented by the pandemic, HoliCOW's founder has diversified her product portfolio, adding pedal-activated handwashing facilities for which there is high market demand. She also brought her business online, a venture that entailed marketing products on Facebook and other online media platforms.

##### Spices Company (Sri Lanka)

Located in Sri Lanka's Central Province, Spices is a small business owned by a women entrepreneur which employs 15 people. Chili powder, the Spices Company's main product, is sold in the local district market. The enterprise has developed this special meat curry powder mixture, which is very popular; sourced from local agro-products, it is an essential cooking item in local communities. The outbreak of the COVID-19 pandemic brought about an immediate slump in sales. However, after a few weeks, business gradually picked up, despite curfew and travel restrictions, owing mainly to the existence of a niche market for the curry powder among local communities. The localized supply chain also helped the company keep up production during the pandemic.



For example, in two surveys conducted jointly by the Department of Economic and Social Affairs (DESA) of the United Nations Secretariat and the Department of Trade and Industry (DTI) of the Philippines in March and August 2020 on the impacts of the COVID-19 pandemic on 200 MSMEs in the country's creative industry sector, 79 per cent and 69 per cent, respectively, of those MSMEs reported not having received support. Among those that had not received support as of August 2020, 77 per cent reported having been unaware that government support programmes were available and 23 per cent reported that their applications had been rejected. Although the trend of non-support was observed to have decreased between March and August 2020, the second survey nonetheless indicated that a majority of MSMEs (almost 70 per cent) had still not received government support as of August 2020. In a similar survey conducted in Sri Lanka, it was found that government support measures benefited mainly formal MSMEs. Owing to awareness and eligibility issues, few informal MSMEs, which account for 90 per cent of the country's business entities, have benefited from support offered under such policy measures.

These surveys also reported on the adaptive measures taken by MSMEs without having received government support. In the Philippines, MSMEs have diversified product lines by adding sanitary facilities and personal protective equipment (PPE) to their portfolios. Despite the challenges described, including those stemming from a lack of online marketing skills and from offline delivery and distribution problems, most of the MSMEs interviewed indicated that they planned to increase their exposure to e-commerce. In Sri Lanka, MSMEs involved in processed agro-product trading that established a niche market and localized supply chains for themselves have demonstrated a higher level of resilience to the pandemic than those embedded in export-related businesses. The surveys found that when the pandemic struck, most of the MSMEs interviewed did not have business continuity plans and faced immediate working capital-related pressures (associated with, e.g., salaries and rental, production and facility costs). This issue, combined with the loss of revenue and disrupted supply chains, has seriously undermined the viabilities of MSMEs.

While there has been a gradual restart of economic activity in different areas of the world, the effects of the COVID-19 pandemic may nevertheless persist. Governments may therefore wish to consider organizing assessments similar to those discussed here which test the effectiveness of stimulus packages and identify means of ensuring that support reaches MSMEs through a demand-driven approach. For example, instead of an initiative based on the indiscriminate injection of liquidity, a more nuanced approach might be needed - one that matches different forms of financial support, such as concessional loans, grants and subsidies, to the specific demands of various MSMEs. Moreover, there would need to be a continuous delivery, during the recovery-and-rebuilding phase, of training programmes for MSME entrepreneurs in such areas as business continuity planning, e-commerce skills and occupational safety and health (OSH) practices. Partnerships with MSME associations and incubation programmes could be considered, as a means of delivering those training programmes and reaching a greater number of MSMEs.

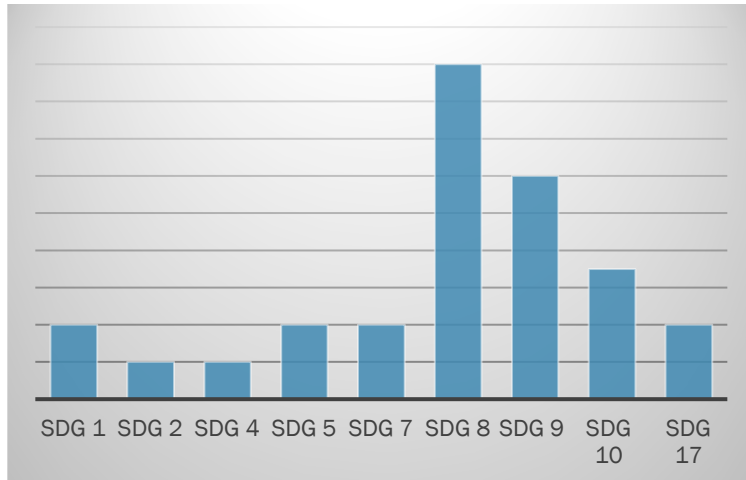
The pandemic may also provide an opportunity to reinvent business-friendly regulatory environments which increase the ease of doing business. Given the prevalence of MSME informality in developing countries, and the resultant inability of many MSMEs to access emergency financing and support policies, the building of coherent and simplified MSME registration systems and the promotion of digitized delivery mechanisms could serve as an entry point for such a project.



#### 4. Discussion: exploring pathways for MSMEs to contribute to the SDGs, as outlined in the VNRs

Within the context of the contributions of MSMEs to the SDGs, the three Goals reported on most frequently by countries were Goal 8: Decent work and economic growth (18 countries), Goal 9: Industry, innovation and infrastructure (12 countries) and Goal 10: Reduced inequalities (7 countries), followed by Goal 1: Poverty reduction (4 countries), Goal 5: Gender equality (4 countries), Goal 7: Affordable and clean energy (4 countries) and Goal 17: Partnership for the Goals' (4 countries) (figure 1).

Figure I: Number of countries reporting on MSME contributions to the SDGs, by individual Goal, 2020



The data derived from the VNRs illustrate the pathways through which MSMEs contribute to SDGs. MSMEs are perceived mainly as engines for job creation, driving economic growth, incentivizing innovation and addressing inequalities by providing opportunities for income generation and participation of vulnerable groups in economic activities. Yet, it is recognized that contributions of MSMEs to the SDGs extend well beyond the sphere of job creation and economic growth. For example, MSME contributions to the SDGs are also reported under Goals 4, 7 and 17. Considering their high potential for creating and diffusing innovation, MSMEs are recognized by both

developed and developing countries as catalysts for boosting energy efficiency and disseminating renewable energy solutions. Indeed, supporting MSME growth has become a regional development cooperation focus among European countries, including Austria, Bulgaria, Estonia and Slovenia. In developing countries of Africa and Latin America, such as the Democratic Republic of the Congo and Costa Rica, MSMEs have been reported as fulfilling their corporate social responsibilities by building schools and caring for people.

In almost all VNRs, MSME-related strategies and policies were reported on. These range from the formulation of exclusive MSME development strategies, to the establishment of MSME support agencies and inclusion of support for MSME-related goals in national development plans. Nonetheless, there is little mention of the issue of coherence of policy measures, especially during the planning and implementation phases. For example, different government departments are involved in MSME formalization, leading to overlapping requirements which prolong the formalization process. The resultant high transaction costs have disincentivized MSMEs from pursuing formalization. Further, to improve the inclusiveness of MSME policy support, a targeted approach would be needed. Policy measures need to match the demands of different groups of MSME entrepreneurs, particularly informal rural microenterprises led by vulnerable groups, which often engage the largest number of the rural poor but are off the radar of policymakers. While the contributions of MSMEs to innovation are rightly applauded, their roles in providing the poor with resources for a subsistence livelihood cannot be ignored.

As the MSMEs form a heterogeneous group, aggregating data and discerning trends across different sectors can be challenging, particularly when most MSMEs are informal and capacities, including for the production of national statistics, are limited. Developing a clear picture of the challenges faced by MSMEs may be difficult owing to data gaps. Urban and rural MSMEs in the same country may experience different realities and divides may exist between them along the lines of finance, service provision and access to markets.