

# Policy Brief: Options to support MSMEs across Pacific Small Island Developing States (SIDS) for sustainable development

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**Table 1 Defining MSMEs**

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
<b>Number of employees</b>	<10	10-49	50-300
<b>Total assets (US\$)</b>	<100,000	100,000-3,000,000	3,000,000-15,000,000
<b>Annual sales (US\$)</b>	<100,000	100,000-3,000,000	3,000,000-15,000,000

Source: IFC, 2023.

# MSMEs globally

- ❖ Critical drivers of economic growth: 90% of businesses; over 50% of employment
- ❖ Formal MSMEs contribution across South: 40% of GDP; 7 out of 10 jobs
- ❖ Essential in creating 600 million needed by 2030



# Challenges faced by MSMEs globally

- ❖ Recently exacerbated by combined effects of:
  - ❖ COVID-19 pandemic
  - ❖ Geopolitical tensions
  - ❖ Pressing environmental concerns



# Challenges faced by MSMEs in SIDS

- ❖ Severe climate change impact
- ❖ Difficult integration into global value chains (GVCs) due to remote location → high transaction costs
- ❖ Limited access to finance
- ❖ Dependency on import of essential commodities
- ❖ Steady emigration → “brain drain”
- ❖ Limited economic diversification





## Limitations of the study

- ❖ Private sector development across Pacific SIDS is limited (especially in sovereign-rent-dependent economies)
- ❖ Lack of reliable data on MSMEs – indeed active on the ground, yet often informal



**Policy interventions that could support  
MSME development in Pacific SIDS**





# 1. Access to Finance

<b>Current scenario</b>	<b>Underdeveloped financial sector</b> with <b>limited banking infrastructure</b> , <b>high cost of lending</b> and <b>poor regulatory framework</b> , insurance systems, and credit rating.
	Geographical isolation and small market size make it difficult for financial institutions to justify investing in MSME lending.
	Lack of credit history complicates lending for financial institutions. Size and remoteness of the market make discourage acceptance of local collaterals.
	East Asia and Pacific region suffers highest formal financial gap (46% of \$5 trillion a year globally -1.4 times the total MSME lending).
<b>Policy intervention and impact</b>	Increasing <b>digital financing solutions</b> , including mobile credit, government-backed guarantee funds, and microfinance can provide MSMEs with essential capital for growth and resilience.
	Training on international market standards may empower MSMEs to scale sustainably.
	Partnerships with development banks to support mobile payment solutions can promote financial literacy and inclusion.
<b>SDG alignment</b>	1.4 Ensure equal rights to economic resources.
	8.3 Promote MSME access to finance.
	9.3 Increase MSME integration into value chains and markets.

## 2. Digital infrastructure and capabilities

<b>Current scenario</b>	<b>Inadequate digital infrastructure</b> and <b>high connectivity costs</b> .
	Below-average performance in internet use, international bandwidth per user, speed of fixed broadband connection, affordability of broadband packages, mobile broadband subscriptions, 3 and 4G coverage etc. impeding MSMEs from leveraging digital tools for business growth and engaging with global market.
	Recent uptick in digital access and domestic economic activity (including remittances) taking place on digital platforms like social media (e.g. Facebook) and formal e-commerce platforms.
<b>Policy intervention and impact</b>	Enhanced <b>investment in digital infrastructure</b> is crucial to enable MSMEs across Pacific SIDS to access wider markets, implement e-commerce solutions and best utilize digital finance tools. This can include broadband expansion, affordable mobile data and improved public Wi-Fi access.
	Public-private partnerships (PPPs) are needed to address connectivity challenges by using infrastructure-sharing policies and supporting alternative, accessible connectivity options (e.g. satellite broadband) for remote islands.
	Digitalization should be placed within broader development plans, and targeted to bridge - not exacerbate – existing cleavages and marginalization.
<b>SDG alignment</b>	SDG 8.2 Achieve higher economic productivity through diversification technological upgrading and innovation.
	SDG 9.1 Develop resilient infrastructure to support economic development and well-being.

### 3. Sustainable business practices and market standards

<p><b>Current scenario</b></p>	<p><b>Mining, fishing, and tourism</b> are, to a varying extent, crucial to most Pacific island economies and could greatly benefit from <b>sustainable practices</b>.</p> <p>Many Pacific SIDS depend on fishing licenses: sustained yield principles are essential to make sure that stocks (tuna and others) last over time.</p> <p>Mining (inland and offshore) holds both risks and significant opportunities → only proper management can avert overexploitation, depletion and environmental degradation.</p> <p>(Eco-)tourism is a widely available and accessible service-sector development opportunity for many Pacific Island countries, promoting simultaneously preservation of nature, cultural resilience, poverty reduction and inclusion.</p>
<p><b>Policy intervention and impact</b></p>	<p>Incentivized <b>adoption of sustainable practices</b> by MSMEs would strengthen their long-term resilience and appeal in their respective sectors, fostering green growth aligned with international market standards.</p>
<p><b>SDG alignment</b></p>	<p>SDG 8.4 Improve resource efficiency in consumption and production.</p> <p>SDG 12.6 Encourage companies to adopt sustainable practices.</p> <p>SDG 13.2 Integrate climate measures into national policies strategies and planning.</p> <p>SDG 14.2 Sustainably manage and protect marine and coastal ecosystems.</p>



## 4. Trade integration, GVC participation, market access

<b>Current scenario</b>	Despite recent efforts, <b>slow regional trade integration</b> and <b>limited participation in GVCs</b> persist due to cumbersome trade procedures, limited infrastructure, and geographical isolation.
	“Pacific Agreement on Closer Economic Relations (PACER) Plus” (2020-present): effort aimed at boosting trade integration among 9 Pacific nations by harmonizing standards, streamlining custom procedures, and enhancing regulatory transparency.
	UNCTAD-Pacific Island Forum’s “Pacific Aid-for-Trade Strategy 2020-2025”: set to pursue regional trade policy milestones in four key realms of “Deepening Forum Markets”, “E-Commerce”, “Connectivity” and “Services”.
<b>Policy intervention and impact</b>	Deepening and widening <b>trade integration</b> via <b>effective trade agreements</b> , <b>streamlined trade policies</b> , and <b>thorough export assistance</b> to reduce barriers to integration into international markets.
	Training and assistance on digitalized procedures, certifications, standards by export agencies would help MSMEs navigate international market requirements and enhancing competitiveness.
	GVC participation would help diversify income streams, contributing to local stability and resilience by reducing reliance on imports and enhancing foreign trade.
<b>SDG alignment</b>	SDG 8.2 Promote productive activities and MSME growth for sustained development.
	SDG 10.a Special and differential treatment for developing countries/LDCs,
	SDG 17.11 Significantly increase the exports of developing countries.

## 5. Climate resilience and digital disaster preparedness

<b>Current scenario</b>	Climate change is a <b>concrete threat</b> transcending the mere inundation, coastal erosion, and seawater intrusion, and <b>impacting virtually every socio-economic activity in much of the region.</b>
	Countries like Kiribati, Marshall Islands, and Tuvalu are particularly vulnerable (54.6%, 43.8%, and 32.6% of land respectively below 5 meters above sea level).
	Initiatives like CREWS (Climate Risk and Early Warning Systems) and partnerships (e.g. UNDP and World Meteorological Organization) have produced financial mechanisms to support the establishment of risk-informed hydro-meteorological and early warning systems across Pacific SIDS.
	Resource limitations, complex logistics, and limited data availability still affect the efficient delivery of warnings, the deployment of adaptive response measures and the upgrading of existing infrastructure.
<b>Policy intervention and impact</b>	Further investment in <b>climate-resilient infrastructure</b> and <b>digital preparedness</b> would protect MSMEs from extreme weather disruptions, enhance continuity planning and empower businesses to better withstand climate-related events.
<b>SDG alignment</b>	11.5 Reduce economic losses related to disasters, including water-related disasters.
	13.1 Strengthened resilience and adaptive capacity to climate-related hazards.

## 6. Women's economic empowerment

### Current scenario

**Women's labour force participation** is far lower than men's (by 30% in Tuvalu, over 20% in Marshall Islands and Samoa). Women work mostly in informal economy → limited capital, skill development, social mobility, social protection.

90% of MSMEs are women-led, yet domestic and unpaid care work remain overwhelmingly women's duty. Gender gap in business and financial literacy, access to digital technology, information persists.

Cultural norms, dependency on male family members, land ownership restrictions, structure of traditional banking systems constrain access to finance, direct engagement and maintenance of formal records.

PACER Plus also emphasizes the role of women-led businesses in regional trade integration. Similarly, CREWS provides gender-sensitive training and capacity-building programmes.

### Policy intervention and impact

Sustained gender-responsive action should support **establishment, formalization and expansion of women-owned MSMEs**; strengthening **digital capacity building, financial access, mentorship and GVC-specific training** would reduce gender-based barriers.

Prioritizing equitable access would foster socio-economic inclusion, create resilient community development and advance equitable outcomes across Pacific SIDS.

### SDG alignment

SDG 1.4 Expand access to economic resources for all including women.

SDG 5.5 Ensure women's full participation and equal opportunities in economic life.



# Conclusions



1. **Whole-of-government approach** at home and **international partnerships** are needed to address Pacific SIDS' challenges and overcome **financial and digital limitations, climate and gender barriers**.
2. The proposed policy interventions target the **building of resilient, sustainable MSMEs capable of sustaining economic growth, job creation, and climate adaptation**, in line with the UN 2030 Agenda for Sustainable Development and its SDGs:
  - ▶ Enhancing digital finance and connectivity (policy interventions 1 and 2) is fundamental for MSMEs to access crucial capital and reach wider and deeper into their markets.
  - ▶ Encouraging sustainable practices, promoting trade integration, and facilitating GVC participation (policy interventions 3 and 4) aim to make MSMEs more competitive and resilient, at home and abroad.
  - ▶ Policy interventions 5 and 6, i.e. disaster preparedness, women's empowerment and active, formal inclusion into the economy would simultaneously foster resilience to climate risk as well as gender equity, therefore ensuring that a crucial segment of society both contributes to and benefits from shared economic progress.
3. The 6 recommendations indicate general pathways towards **inclusive, resilient, adaptable, globally connected MSMEs**, which are pivotal for the prosperity of the Pacific and other regions of the world. They address **challenges typical of, yet not necessarily exclusive to, Pacific SIDS**, so **they may resonate with other developing contexts**, featuring similar socio-economic dynamics (e.g., limited diversification and participation in GVCs, pervasive informality, infrastructure deficit etc.) and geographical constraints (e.g., remoteness, environmental vulnerability, narrow resource base etc.), at a time of multiple, converging global crises.

# Thank you!



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