

Committee: World Trade Organization

Agenda Item: Promoting stable development opportunities, circular economy principles and trade facilitation for MSME's

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Introduction

Micro, Small and Medium Enterprises (MSME's) are the backbone and foundation of all existing economies around the globe. These entities contribute greatly to GDP, employment and overall innovation within a nation. It is possible to categorize these businesses by size, often in terms of employees, annual revenue, etc. Unlike large corporations, MSME's typically operate on a local/regional basis.

In order for a nation to withstand and recover from potential financial downturns, natural disasters, international conflicts or any such events that trigger economic crises, it should foster MSME's. These enterprises are key components of economic resilience and act as a bridge between large corporations and local communities. They assist in the creation of job opportunities in rural areas as well as urban areas.

Despite the significant input of MSMEs to the GDP of a nation, challenges to their development persist. Navigating trade, legal requirements and irregular income are examples of such challenges faced by these enterprises. Nations around the world implement a variety of measures to help MSME's thrive. However, in today's world, globalization and technological advancements pose barriers.

This report will discuss challenges and strategies related to supporting MSME's globally, define key terms/organizations and give an overview of the topic– providing further context to the issue. Lastly, it will examine solutions that have already been implemented and suggest possible solutions.

Definition of Key Terms

Sustainable Development:

Sustainable development as a concept refers to the process of growth that aims to respond to the needs of the current time without compromising the ability of future generations to meet their own needs. It places a focus on environmental and economic balance. Ensuring that MSMEs grow while considering their environmental impact as well as assisting with resource efficiency, and long-term economic stability are a few ways in which sustainable development can play a crucial role in their development.

Circular Economy :

The circular economy is a model in which nature is renewed and materials never go to waste. Products and resources are kept in circulation in a circular economy by means of recycling, composting, remanufacturing, refurbishing, maintenance, etc. and reuse. Creating a self-sufficient and sustainable economy is important as it helps micro/small/medium businesses save costs while also innovating and meeting the growing demand for eco-friendly products in today's society.

Market access:

The ability of businesses to offer their goods or services in both domestic and foreign markets is referred to as market access. It involves overcoming obstacles including tariffs, regulations, logistics, and competition. Market access enables MSMEs to increase their consumer base and income while maintaining competition. Exporting goods or joining online markets are examples of opportunities these businesses may have thanks to improved access.

Entrepreneurship:

Entrepreneurship is the process of spotting possibilities and establishing a company enterprise by taking risks. It involves creativity and the ability to adapt to new situations, all with the objective of making a profit. Entrepreneurship is crucial to the existence of MSMEs, which are often founded by individuals and small teams who take initiative to address specific market demands.

Public-Private Partnerships(PPPs)

PPPs include collaborative agreements between governments and private enterprises. Essentially, the entities work together to provide public services. These collaborations bring forth the qualities of both sectors, with the public sector providing oversight and businesses bringing experience and efficiency. PPPs can provide MSMEs with new opportunities by granting them access to funding and infrastructure projects that they would not otherwise have.

Microfinance Institutions (MFIs)

MFIs are organizations that provide financial assistance such as small loans and insurance to individuals or small businesses that lack access to more traditional banking services. These institutions generally focus on underserved populations and help individuals start up or grow their businesses. MFIs offer access to affordable credit to MSMEs, especially in developing regions where traditional financing options might be out of reach.

Major Actors Involved

European Union (EU): The European Union is a transnational political and economic union consisting of 27 member nations mostly centered in Europe. Since its establishment in 1993, the organization has introduced a variety of policies and projects to promote economic growth, as well as economic stability for its member nations.

With the increasing threat of climate change, the EU launched the European Green Deal, which attempts to strengthen its member states' economies through an inventive approach. The plan favors a resource-efficient and competitive economy in which there are no net greenhouse gas emissions by 2050 and economic growth is independent from resource use. Included in this project is the Circular Economy Action Plan. Transitioning into the circular economy model is aimed to increase the life cycle of resources and products by ensuring goods are kept in the market for as long a duration as possible. By achieving resource-efficiency, MSMEs within the EU bloc can reduce costs of production and enter into growing green markets.

Foreseen to be introduced in 2026, the EU has also been working on the MSME Platform, which will help provide access to long-term and short-term financing from local financial institutions for micro-, small-, and medium-sized enterprises, with an emphasis on enterprises run by women, young people, and migrants in regions of instability and least developed nations.

China: China has the second largest economy in the world. The country's economy grew at one of the quickest rates in the world between 2000 and 2019, with the GDP indicating an average yearly increase of more than 9%. With millions of people moving from agricultural work to better-paying positions in manufacturing, services, and technology-driven industries, China's economic expansion has dramatically increased employment rates.

China's market economy opened up in the 1980s as part of market-oriented reforms, and private MSMEs were eventually acknowledged as being essential to the nation's economic growth. As of 2022, MSMEs in China make up 98.5% of all companies, 60% of the country's GDP, and three-quarters of all jobs. In China, the majority of MSMEs were founded within the last 15 years.

The nation has introduced their 14th 5-year plan which encompasses the years 2021-2025. This plan aims to drive the economy forward while focusing on innovation and green growth. A key part of the plan is adopting circular economy principles to help cut down on waste of resources. MSMEs, due to their significant contribution to the country's wealth, are at the forefront of the plan. By including small businesses into green supply chains, China plans to help them thrive while achieving its broader goal of conserving resources.

Yet despite these efforts to build up MSMEs, their expansion has been hindered by a lack of external market connections, technological innovation, and finance options. This highlights the need for more efficient and competent government services for MSMEs to improve their competitiveness.

India: India is one of the world's fastest-growing economies, with an average annual GDP growth rate of more than 6% between 2000 and 2019. This increase has resulted in a movement away from agricultural work and toward occupations in manufacturing, services, and other industries. MSMEs contribute significantly to India's economy, accounting for 30% of GDP, 45% of exports, and employing more than 110 million people.

Despite this, MSMEs in India face financial challenges and struggle with a lack of business expertise and modern technology. Indian MSMEs also face severe competition from their worldwide counterparts as a result of liberalization and unstable market conditions.

The ZED (Zero Defect, Zero Effect) Certification Scheme is an initiative implemented by the nation to encourage MSMEs to adopt high-quality production processes while minimizing environmental impact. The scheme centers around quality management and environmentally friendly practices. MSMEs that achieve ZED certification are recognized for their commitment to sustainability and quality, which helps them become more competitive in both domestic and international markets. The certification also provides access to incentives and financial support by the government.

Brazil: The Brazilian economy is large and diversified, with above-average growth rates in areas such as agriculture, mining, and services. MSMEs form an important part of the nation's economy, accounting for more than 27% of Brazil's GDP and employing around 54% of the workforce. MSMEs, however, usually bear high operating costs, inadequate access to financing, and difficulties in accessing international markets.

Over time, Brazil has increasingly adopted principles of a circular economy in its pursuit of sustainability, notably among the agricultural and manufacturing sectors. The government has offered policies and incentives toward helping MSMEs embrace such practices, including reducing waste and the efficient use of resources through recycling.

MSMEs are, however, still hampered by gaps in infrastructure and regulatory barriers; more support will be necessary for MSMEs to realize their potential contribution to green growth and to increase access to markets.

General Overview of the Issue

In order to better discuss the topic at hand, it is essential to understand the importance of MSMEs to the economy of any nation and to what extent they contribute to not only the economy but also the socioeconomic state of the people within a nation. MSMEs are essentially divided into two categories, with these categories being service enterprises and manufacturing enterprises. Service enterprises provide services, whereas manufacturing enterprises produce, process, or preserve items and commodities.

According to the International Labor Organization (ILO), MSMEs account for nearly 70% of all employment globally. They drive economic growth by creating jobs, boosting entrepreneurship, encouraging innovation, and contributing to GDP. MSMEs also contribute significantly to regional development, export promotion, and reducing income disparity.

To further elaborate, despite evident challenges and obstacles, MSMEs generate employment. They provide opportunities for skilled and unskilled workers and often require less capital to start compared to larger businesses. Thus it is possible to state that establishing an MSME can be relatively straightforward. This quality attracts many individuals to starting their own entrepreneurial ventures, including those in more disadvantaged areas—which as a result reduces unemployment rates.

Another quality of MSMEs is that they require less investment, therefore encouraging individuals to take risks in order to respond to market demands. These enterprises provide platforms for entrepreneurs, which in turn creates a competitive environment that centers around creativity and innovation.

MSMEs help decentralize economic activity by shifting concentration of businesses in urban areas to semi-urban and rural areas. Responding to local needs and demands, small businesses push economic growth across different regions. This helps balance out economic disparities between developed and underdeveloped regions.

When talking about the benefits of fostering MSMEs it is crucial to mention their role as suppliers for larger industries. MSMEs often serve as providers of essential goods and services for larger firms, contributing to the value chain of many industries. These transactions create a more dynamic economy and boost the GDP . An example of an MSME supplying for a larger industry could look like a small-scale manufacturer producing specialized parts for a larger automotive company. For instance, a small business might produce precision-engineered screws, bolts, or upholstery materials that are then used in the assembly of vehicles.

Despite serving as the backbone of every economy, MSMEs face challenges that can be hard to overcome. A common challenge faced by MSMEs include low awareness on the benefits of technology. Small businesses often consider technology as not being worth the investment out of fear of it becoming rapidly obsolete due to its dynamic nature. In some cases, technology is not available or business owners are not aware of where to find them.

This leads to MSMEs falling behind compared to their competitors both in domestic and international markets. This can also cause an increase in monopolization, which refers to one single company dominating the market.

Another challenge commonly faced by MSMEs is the lack of skilled manpower. When business owners hire skilled or unskilled labor, they tend to fear losing said workers to competitors which leads them to offer higher salaries and benefits, instead of encouraging engagement through training programmes. Employees eventually move on and the business fails to achieve its goal of retaining labor and having committed and skilled workers.

Insufficient or ineffective marketing is also one of the factors that MSMEs are confronted with when trying to grow a customer base. For most small businesses, existing marketing strategies are becoming less effective by the day and offer little to no practical use for the standards of today's society. To ensure sales and growth, MSMEs should adapt to marketing formats compatible with the size of their enterprises. However, this can be difficult as a result of lack of business/marketing expertise.

Lastly, the most common challenge faced by MSMEs is undoubtedly limited access to finance, especially trade finance. Lastly, the most common challenge faced by MSMEs is undoubtedly limited access to finance, especially when it comes to trade finance. Securing loans is often a difficult task for small businesses, as they may lack the necessary collateral or a strong credit history to qualify.

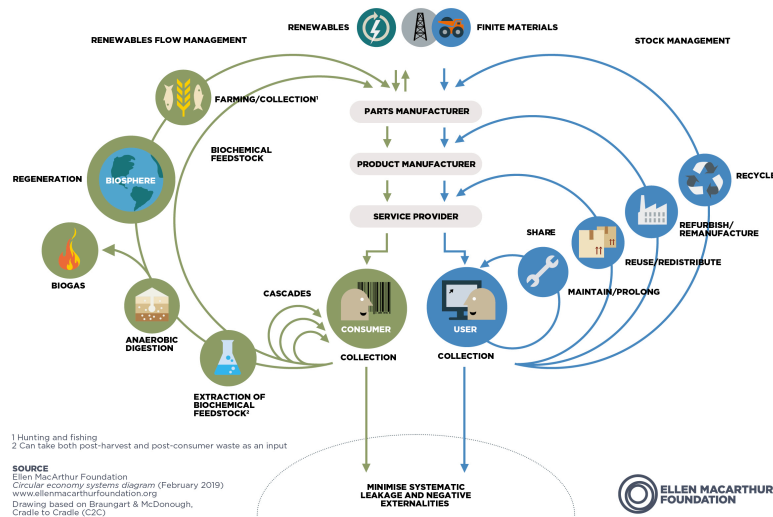
High interest rates and strict lending conditions make borrowing even more challenging. On top of that, many MSMEs lack the skills and knowledge needed to navigate international markets, which limits their ability to expand. Barriers like complicated regulations and non-tariff requirements also make it harder for them to meet the demands of foreign markets. Lengthy border procedures and inefficient customs processes cause delays and raise costs, further hindering their ability to compete internationally.

To effectively combat these challenges and promote stable development opportunities for MSMEs, it is important to understand the functioning and principles of the circular economy model. In a time of extreme consumption and waste, handling scarce resources with conscious and efficient practices is a must. With awareness surrounding the subject of climate change increasing, the circular economy model has started being integrated into the existing economies of nations that aim to take action against the issue.

In our current economy, we get our resources from the planet. Following a linear process, we manufacture goods using these resources, and eventually discard them as waste—which as a result highly endangers the ability of future generations to do the same. Annually, 2.12 billion tons of waste is produced across the world.

Unlike our current system, the circular economy is a system in which materials are never wasted and nature is replenished. A circular economy keeps items and materials in circulation through operations like maintenance, reuse, refurbishment, remanufacture, recycling, and composting.

MSMEs frequently regard circular economy practices as optional, more expensive, and difficult to implement, with no clear benefits. This stems from a lack of skills and access to environmental knowledge, as well as a poor innovation culture. This misconception reduces enthusiasm in implementing eco-innovations or switching to sustainable models. Furthermore, insufficient support and environmental programs that fail to address MSMEs' demands hinder their transition to more sustainable manufacturing methods.



Circular economy diagram www.ellenmacarthurfoundation.org

Entities such as the EU, China, Australia and Scotland have all made efforts to integrate sustainability and circular economy practices into their economies.

The EU, within its CEAP (Circular Economy Action Plan) aims to become a “climate neutral and resource-efficient” bloc by 2050. By 2030, this plan foresees a potential GDP increase of 0.5% and the generation of 700.000 additional jobs. The plan is expected to help MSMEs in manufacturing cut an average about 40% on material costs, while sheltering them from resource price fluctuations.

To further elaborate on China’s efforts, the nation has included many initiatives beneficial for MSMEs in the 14th edition of its 5-year plans. These initiatives include fiscal incentives to attract private investments to rural areas and promote the development of micro, small and medium-sized enterprises in these rural regions. Apart from direct investment to these enterprises, the plan also entails a variety of measures to support a shift to a greener economy.

Trade plays a key role in the growth of MSMEs both domestically and internationally. According to the World Trade Organization (WTO) trade facilitation is the simplification, modernization and harmonization of import and export practices.

Australia has taken action in order to facilitate trade in recent years, and in accordance with the WTO’s definition, has taken significant steps towards simplifying and modernizing their trade systems. For instance, the nation has so far established a large and single source of online information on export criteria. It has also established a portal for import clients, increasing the ability of business owners to manage and follow inspection outcomes. In the future the Australian government aims to implement reforms that include developing a cross-border data sharing framework, digitizing customs processes for seized goods and administering an information sharing platform between the government and businesses concerning trade procedures.

Timeline of Important Events

Date:	Event:
October 1987	The Brundtland Report which includes the urgency for inclusive growth and resource-efficient practices, introduces the concept of sustainable development
July 1991	India begins its economic liberalization, creating opportunities for MSMEs to access global markets
January 1, 1995	The World Trade Organization (WTO) is established
September 2000	The United Nations launches the Millennium Development Goals, with MSMEs seen as key drivers of local economic development
December 11, 2001	China joins the WTO, opening its economy and boosting the growth of its MSMEs
September 2008	The global financial crisis shifts focus toward economic resilience, prompting governments to introduce policies supporting MSMEs
June 2012	The UN Rio+20 Conference highlights the importance of circular economy principles
December 3-6, 2013	The WTO Bali Package includes the Trade Facilitation Agreement, streamlining customs processes and reducing trade costs
September 25, 2015	Adoption of the Sustainable Development Goals prioritizes

	MSMEs in achieving sustainable economic growth (Goals 8 and 12)
December 12, 2015	The Paris Agreement encourages businesses, including MSMEs, to transition to sustainable practices
March 2018	The African Continental Free Trade Agreement is signed, aiming to improve intra-African trade opportunities
2018	The European Union launches its Single Digital Gateway Regulation to simplify administrative procedures in trade
March 2020	The COVID-19 pandemic disrupts MSME supply chains globally
March 2021	The European Union's Circular Economy Action Plan (CEAP) introduces targeted measures to integrate MSMEs into sustainable supply chains
November 2022	The ASEAN Comprehensive Recovery Framework focuses on enhancing MSMEs' digital adoption
2023	The United Nations Industrial Development Organization (UNIDO) partners with developing nations to implement programs supporting MSMEs
September 9-10, 2023	The G20 Summit, hosted in India, prioritizes MSME growth and trade facilitation

Related Documents

1. UN Resolution A/RES/74/203
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3. UN-DESA Report, Responding to the socioeconomic impact of COVID-19
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4. EU Report, China's circular economy policies
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Past Solution Attempts

Efforts to support MSMEs around the world have taken on many forms. Focusing on some of the biggest issues small businesses face, countries have introduced measures that aimed to increase access to finance and sustainable practices. There have been a great amount of support to assist MSMEs in entering new markets

To give an example, microfinance programs have been a lifeline for many MSMEs—especially to those in underserved areas. These programs give entrepreneurs access to the funding they need to start or grow their businesses. However, high interest rates and limited knowledge on managing finances often leads business owners to not being able to efficiently use these funds.

In Europe, the Circular Economy Action Plan has been a game-changer for encouraging sustainable business practices. Though the plan offers funding and tools needed to transition into circular economy practices, the lack of awareness among MSMEs results in businesses not being able to take advantage of these opportunities.

India's ZED Certification Scheme serves as an example on how governments can guide MSMEs toward generating high quality products and services while being sustainable and efficient with their use of resources. Despite its success, the scheme faces challenges like limited reach and lack of awareness. The scheme has failed to take into account the expense of compliance, which in this context manifests as all the expenses that a firm incurs to adhere to industry regulations.

Another innovative approach has been proposed by UNIDO: The Eco-Industrial Parks Initiative, where businesses work together to share resources and reduce waste. For MSMEs, these parks offer access to technology and infrastructure they might not be able to afford on their own. It's an exciting concept, but scaling it up and ensuring all small businesses can take part remains an issue.

Lastly, the WTO's Trade Facilitation Agreement, introduced in 2013, was designed to make trading across borders more simple and faster. For MSMEs, it meant less paperwork, fewer delays, and lower costs. The agreement aimed to open up opportunities for MSMEs to compete in global markets. While this has been a big step forward, the impact hasn't been the same everywhere. Many developing countries still struggle to upgrade their systems and infrastructure to fully benefit from these changes.

Possible Solutions

To address the global challenges MSMEs face, delegates may explore a variety of approaches that are adaptable across regions ranging from Less Economically Developed Countries (LEDCs) to More Economically Developed (MEDCs). Rather than rigid solutions, here are ideas aimed to inspire creative and innovative solutions.

Firstly, delegates can explore the idea of fostering digital ecosystems that connect MSMEs across borders. For example, they may propose developing international e-commerce platforms or encouraging partnerships between tech companies and governments to support digital tools for small businesses.

This could help MSMEs in LEDCs access larger markets while allowing MEDCs to expand their supply chains and consumer bases.

Delegates might focus on creating systems where MSMEs, regardless of their location, can access funding for sustainable initiatives. This could involve suggesting global financial platforms that provide low-interest loans for eco-friendly projects or proposing public-private partnerships to fund green innovations. By tailoring financial solutions to regional needs, such initiatives could support circular economy transitions globally.

By recognizing the barriers MSMEs face in international trade, delegates may suggest simplified customs procedures and trade agreements. They could propose frameworks for standardizing trade documentation or developing regional systems that allow small businesses to navigate complex trade regulations more easily.

Delegates can think of ways to establish global knowledge-sharing platforms where MSMEs from different regions can collaborate and learn from each other. An example of this could be initiatives pairing businesses in MEDCs with those in LEDCs to exchange expertise on technology, sustainability, and market trends.

Lastly, delegates can bring forward global incentive programs to reward MSMEs adopting green practices. This could include tax breaks, certification programs, etc. Facilitating access to international markets for businesses that implement circular economy models could also be effective.

Useful Links

- <https://www.ilo.org/topics/micro-small-and-medium-enterprises>
- <https://sdgs.un.org/topics/capacity-development/msmes>
- <https://icsb.org/ayman-tarabishy/un-msmes-day-2024/>
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