



Brussels Rural Development Briefings
A series of meetings on ACP-EU development issues

Briefing session n° 13

**Upgrading to compete in a globalised world:
What opportunities and challenges for SMEs in agriculture in ACP countries?**

Wednesday 23^d September 2009 – 8h30 – 13h00

**The impact of the financial crises on investment and trade in ACP countries:
A focus on SMEs**

Alberto Portugal-Peres – World Bank

Executive Summary

The financial crisis has been inflicting havoc on the global economy. Trade has fallen drastically since the offset of the crisis. In the first quarter of 2009, world trade fell by 30 percent on average (in current USD). The declines have been widespread across countries and products, largely reflecting the sharp drop in global demand. The exports ACP countries are no exception. Recent monthly data of exports to the US, EU and Japan show that ACP exports growth to these markets, which account for more than half of ACP exports value, dropped more considerably than exports growth of other developing countries taken as a block. This trend has been accentuated by the sharp decline in demand for the commodities they export, as well as in their prices.

Foreign investment to ACP countries has also been expected to diminish sharply¹. For instance, recent IMF projections show FDI inflows to low-income countries for 2009 falling by almost 20 percent from their 2008 levels. Foreign companies' reduced profit margins, combined with difficult financing conditions and volatile commodity price, as FDI in ACP countries is heavily concentrated in natural resource sectors, have begun to trigger reduced FDI commitments for 2009–10².

SMEs play a significant role in all economies and are key generators of employment and income, and drivers of innovation and growth. Given their importance, they are essential for economic recovery. As a result of the financial and economic crises, SMEs have been confronted to a dual shock: a dramatic drop in the demand for their goods and services and a tightening in their access to finance. Access to finance remains one of the most important challenges for the creation, survival and growth of SMEs, a problem exacerbated by the crises. Among policies supporting SMEs, a distinction can be made between policies addressing firm-specific constraints (technology upgrading, promotion of quality control, market development, network formation, and export promotion, skills development for workers, etc) and economy-wide policies to improve the business climate (regulatory reform, transparency, etc.). Finally, trade enabling policies such as trade facilitation³ (broadly defined as the policies aiming at reducing trading costs) granting preferential market access to ACP exporters can be effective to counter falling trade. They can expand the benefits of trade to SMEs through raising the probability of entering foreign markets and increasing the exports value of existing exporters. They also have an impact on SMEs producing non-tradable intermediates and services.

¹ At the world level, FDI fell from a historic peak of USD 1,979 billion in 2007 to USD 1,697 billion in 2008, whereas preliminary data suggests that inflows fell a further 44% in the first quarter of 2009, compared to the same period in 2008. UNCTAD, 2009, "World Investment Report."

² In Laos and Mozambique, for example, FDI related to expansions of hydroelectric and mining projects has been delayed or suspended. IMF, 2009, "The Implications of the Global Financial Crisis for Low-Income Countries."

³ See for instance, Portugal-Perez and Wilson (forthcoming) "Why trade facilitation matters to Africa" World Trade Review.