



**CONCEPT NOTE**  
**BRICS COOPERATION IN MSME SECTOR**  
**03 MARCH 2023**

**1. PURPOSE**

The SMSE sector plays a vital role in driving growth, employment creation, and resilience especially following the Covid-pandemic and in the wake of further global economic slump and disruptions in food and energy supply as a result global event. This short concept note outlines a number of areas in the MSME sector around which BRICS countries can co-operate to enhance the role of this sector in promoting innovation, economic dynamism, and inclusion in respective economies.

**2. CONTEXT**

Low growth, weak trade, declining rates of investments, and rising levels of inequality that could generate social frictions require governments in the BRICS countries to elevate the role played by MSME in their economies. Micro, Small and Medium Enterprises (MSMEs) have become one of the critical drivers of growth for many nations, including the BRICS countries. MSMEs represent about 90% of businesses and more than 50% of employment worldwide. Formal MSMEs contribute up to 40% of national income (GDP) in emerging economies. Across the globe, small businesses are significant drivers of job creation, competitiveness, and innovation. They are an essential part of a wider ecosystem of firms and have a higher employment intensity compared to large firms. However, many Micro, Small and Medium Enterprises (MSMEs) remain informal, and a large proportion of workers employed by MSMEs come from the vulnerable segments of

the labour force. Covid-19 had a particularly devastating impact on MSMEs, despite the swift response and relief packages offered by BRICS governments.

Further, many MSMEs are affected by high levels of concentration across various product markets. Along with lack of access to capital, high levels of concentration by large firms constitute market failure for the MSME sector. This is an area that also requires close attention by the BRICS countries. Although a great source of innovation, the rise of Big Tech could potentially create barriers to entry for MSME in the platform and digital economy. There is therefore a need to create a conducive environment through regulation and sandbox measures to enable MSMEs to thrive in the digital age.

At the same time, the pandemic brought new opportunities for MSMEs with the reconfiguration of global value chains, and the exponential growth of digitalization, fintech and e-commerce which has made it easier for MSMEs to be part of the global trading system. These capabilities must be enhanced. This is another important area around which the BRICS countries can share lessons.

The 2020 World Investment Report indicated that the African continent made up less than 4% of the world's FDI inflows and less than 1% of the Worlds FDI outflows between 2017 and 2019. The African Continent remains on the margins of the global trading system and has much to gain through BRICS collaboration. The AfCFTA presents a key opportunity for the continent to transition away from its historic role as a commodity exporter towards higher productivity value addition driven through MSMEs. The proposed BRICS collaboration will enable this through the sharing of technology, know-how, and skills, access to capital for start-ups and scale-ups, and the co-creation of markets.

### **3. BRICS & MSMEs:**

The BRICS countries are among the fastest growing as well as among the largest emerging market economies in the world. The territories of these five BRICS member countries are home to 3.14 billion people (41% of the world population) and the BRICS bloc had a GDP over 24.44 trillion U.S. dollars in 2021, equivalent to 24 % of world GDP, as well as over 16% share in world trade.

Utilising their individual strengths and areas of specialization, the BRICS Nations could enable mutually beneficial MSME integration and growth among member countries. The tremendous potential for resource and technology sharing, mutual research, and development efforts, for example around smart manufacturing, could prove immensely beneficial for member countries and for accelerating the BRICS MSME development agenda.

#### **4. Areas of Cooperation:**

**4.1. There are several areas of cooperation for BRICS countries. There are lessons and exchange of ideas that could support the broadening of MSME participation in the economy in the BRICS countries. There is also much that through greater cooperation could be achieved to enable internationalization of MSMEs. The following are areas that could constitute BRICS cooperation on MSMEs:**

- i) Overcoming market concentration and other market failures affecting MSMEs and Cooperatives, and building inclusive and resilient supply chains;
- ii) Promoting innovation and expansion of e-commerce, fintech and other digital tools to enhance intra-BRICS trade and enable the meaningful integration of MSMEs in the global markets;
- iii) Developing strategies to improve access to finance and capital for MSMEs;
- iv) Using State-Owned Companies (SOCs) and Development Finance Institutions in supporting greater MSME participation in government procurement as well boosting their capabilities and facilitating technological spillovers for enhanced participation in the mainstream economy;
- v) Improving the relationship between large firms and MSMEs including through better design and utilization of corporate social investment instruments, supplier development initiatives, and ESG frameworks for promoting the activities of MSMEs;
- vi) Sharing best practices on specific interventions aimed at promoting women and youth owned MSMEs and tech start-ups;

- vii) Facilitating access to resources and capabilities such as skills, knowledge networks, and technology that could help MSME improve their participation in the economy and global value chains.
- viii) Enhancing the role of venture capital, incubators, accelerators, and a wide array of tech start-up ecosystem in BRICS countries; and
- ix) Promoting the development of research and productive capabilities in smart manufacturing and green industries to build MSME competitiveness in support of broader objectives of inclusive growth and industrialisation;

**4.2. It is important that BRICS countries consider the role of the state in co-creating markets through the use of procurement and conditionalities that could direct or influence the investments of large firms in support of MSME activities. In this regard, the following enablers could also constitute areas of cooperation for the BRICS countries:**

- i) Exchanging information about fairs and exhibitions and encouraging participation of MSMEs in the selected events in BRICS countries in order to enhance interactions and cooperation amongst MSMEs of the respective countries of BRICS;
- ii) Facilitating exchange of business missions and promoting sector specific Business-to-Business (B2B) meetings amongst the MSMEs of BRICS countries, to enhance enterprise-to enterprise cooperation and help initiate sustainable business alliances between the MSMEs of BRICS, with a particular focus on women-owned and youth-owned MSMEs.
- iii) Exploring cooperation in the form of Research and Development, Technology Transfers, joint ventures, and technology tie-ups among the MSMEs and the institutions/organizations involved in development of MSME sector in BRICS member states.
- iv) Enhancing participation of MSMEs and Co-operatives within the digital economy, especially around e-commerce and digital market platforms.
- v) Upgrade the BRICS E-commerce Working Group to the BRICS Digital Economy Working Group, to reflect the growing importance of cooperation on digital economy among the BRICS countries.

- vi) Capacity building of MSME Institutions and Industry Associations of BRICS through knowledge & experience sharing.
- vii) Sharing of information on capacity building policies and institutional framework for the development of MSMEs of BRICS on mutually agreed terms;
- viii) Creating linkages amongst Technical Centres of BRICS member states.
- ix) Exchange views on measures and approaches for integrating BRICS MSMEs into Global Value Chains;
- x) Provide market access and exchange information relating to MSMEs, business development opportunities and possibilities of partnerships for development of MSMEs of BRICS on mutually agreed terms;
- xi) Conduct joint studies and research to formulate development strategies for MSME Sector of BRICS Member States; and
- xii) Share information on trade and market intelligence and make this accessible to MSMEs of BRICS on mutually agreed terms.
- xiii) Any other areas of co-operation in the field of MSMEs mutually agreed upon by the BRICS Member states.

Detailed Action Plans on each cooperation activity will be worked out mutually by the member states.

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