

Micro, Small, and Medium-Sized Enterprise (MSME) Participation in Global Value Chains – Constraints and Challenges in the Pacific

Research Findings from the Federated States of Micronesia, Solomon Islands, and Samoa

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Questions in focus

1. What are the major constraints and challenges in promoting Micro, Small, and Medium-Sized Enterprise (MSME) participation in global value chains or internationalization of MSMEs in your country/region?
2. How have you responded to such constraints/challenges? Any initiatives in this regard?
3. What type of business clustering—vertical or horizontal supply chain clustering comprising large firms and MSMEs or MSMEs only—would be promising for developing MSME export business in your country/region? Any success cases in this regard?
4. Ongoing geopolitical conflicts and potential tariff war may accelerate supply chain disruptions in Asia and the Pacific. Are you preparing any specific measures amid increased global uncertainty?

Global Value Chain, MSMEs, and the Pacific

- MSMEs critical to the economy and provide livelihoods for many of the world's poorest and most vulnerable people.
- ...represent important sites of resilience, dynamism, and innovation.
- However, MSMEs face several constraints.
- In the Pacific, these challenges are further exacerbated by local conditions.
- Need to revitalise the MSME sector in the Pacific through capacity building and technology.



ADB Working Paper Series

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PACIFIC ISLAND COUNTRIES:
PATTERNS AND STRUCTURE

Upalat Korwatanasakul

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Global Value Chain, MSMEs, and the Pacific

- Country level: the Pacific countries have a limited role in global and regional production networks.
- Industry level: engaged in low-value-added activities.
- Firm-level: MSMEs face difficulties joining value chains.
- Significance of macro-level business-enabling environment factors.



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OCTOBER 2023

Global Value Chain, MSMEs, and the Pacific

- Job creation a critical challenge that the MSMEs can fill.
- MSMEs can help diversify the business sector.
- Beyond tourism and agribusiness.
- ...through digitalisation.
- MSMEs helped by commercial banks and government financial assistance.
- Need to broaden alternative financing options.
- Lack of key indicators.

Literature gaps

In the Pacific...

- Lack of data.
- Focus on country and firm-level understanding of MSMEs.
- Use a rather broad definition of MSMEs.
- Each country defines the construct differently (i.e., number of staff, annual turnover, etc.)

Our research

- Investigates the low end of MSMEs (nano, micro, small), particularly the poorest/most vulnerable segment of small-scale enterprises.
- Gathers data to help development banks better understand the ecosystem and tailor their services more effectively.



Objectives

Research (Surveys, Interviews)

1. Identify constraints and opportunities for small-scale entrepreneurs to grow and develop.
2. Understand the mindset of small-scale entrepreneurs (what motivates them to grow their business?)
3. Current landscape of available support mechanisms available to entrepreneurs.
4. Understand the potential for technology to play an increased role in supporting enterprise growth.



Research (Method)

Interviews

- 10 per country (FSM=9, Samoa=10, Solomon=10)
- Institutions that play a key role in supporting entrepreneurs (banks, NGOs, government agencies, etc.)

Surveys

- 200 per country
- Potential entrepreneurs (~50)
(FSM=50, Samoa=60, Solomon=50)
- Established entrepreneurs (~150)
(FSM=154, Samoa=161, Solomon=154)

Established Entrepreneurs

Size/Annual Turnover	Total	FSM	SI	Samoa
(Nano) Less than US \$5,000	161	50	50	61
(Micro) US \$5,001 to \$20,000	158	54	54	50
(Small) US \$20,001 to \$40,000	150	50	50	50
Total	469	154	154	161

Research findings (Demographics)

- Fairly even split of men and women, mainly in their prime working years (25–54 years old)
- Education levels appear relatively high
 - 40%–70% have completed high school and 20%–30% completed university
- The majority (60–70%) of businesses are in retail, services, and farming with up to 2 employees, including unpaid workers (presumably family members).

1. Understand mindset of small-scale entrepreneurs (what motivates them to grow their business?)

- Top motivators
 - To achieve their dream of becoming an entrepreneur
 - To increase personal income
- Attitudes toward entrepreneurs and entrepreneurship are very positive
- To grow business
 - Expansion plans are mainly local (same island or same country)
 - Growth strategies are either intensification (increase production and inventories) or diversification (new product development)
- Most of our respondents rely on family and community for the business idea and for knowledge about how to run the business

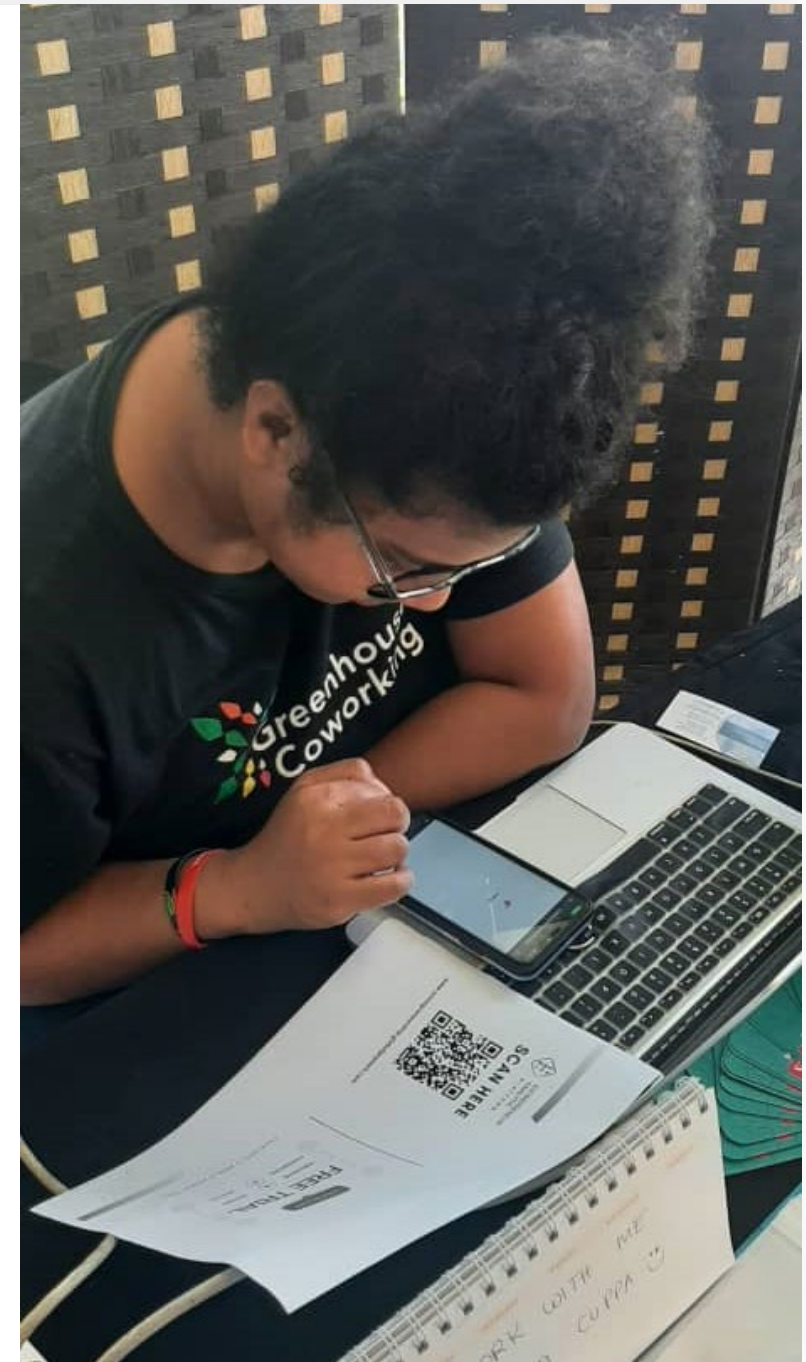


Desire to expand business – local vs. international (Established Entrepreneurs)

	Total	Total %	FSM	FSM %	SI	SI%	Samoa	Samoa %
Locally or in the same island	387	82.5	137	89.0	106	68.8	114	75.5
Other islands and provinces in the same country	118	25.2	20	13.0	80	51.9	18	11.2
Other Pacific Island countries	48	10.2	3	1.9	21	13.6	24	14.9
Countries other than Pacific Islands	18	3.8	2	1.3	10	6.5	6	3.7
Total	469		154		154		161	

2. Identify constraints and opportunities for small-scale entrepreneurs to grow and develop

- Lack of access to finance/credit
- Lack of bankable ideas
- High cost of banking
- Low training knowledge and enrolment
- Lack of understanding of the business applications of digital technology



Financial behaviours

- Two-thirds have a bank account and transact at the branch in person
 - Most use for both personal and business (not separate)
- Use of digital financial services is low
- Only half said that a mobile money account or e-wallet are important to business success
 - 60% say their customers prefer to use cash
 - 49% say they don't know how to use the technology
 - 30% don't trust digital payments
 - Use of agents to conduct online banking is limited
 - Other reasons: poor ecosystem, inconvenience, affordability
- Among established entrepreneurs, very low use of loans *in general* (18%), and formal loans *in particular* (14%)

3. Current landscape of available support mechanisms available to entrepreneurs

FSM

- Business Incubators (e.g., Yap Small Business Development Centre)
- Entrepreneurship Training Programs (e.g., the College of Micronesia)
- Federal and state Chambers of Commerce
- Government support

Solomon Islands

- UN Programs (UNCDF's SICCI and YESCI)
- Government efforts

Samoa

- Samoa Business Hub
- Chamber of Commerce
- Private sector initiatives
- Samoa Association of Manufacturer & Exporter
- Women in Business Development Incorporated
- Samoa Farmers Associations
- Samoa Institute of Accountants



3. Current landscape of available support mechanisms available to entrepreneurs

1. Finance and the disconnect of expectations and requirements

- Poor accessibility (physical distance and low use of technology) and affordability
- Poor bankability of ideas

2. Training (*both established and potential entrepreneurs*)

- Most business skills are gained through practical experience rather than formal business acceleration training (11%) or internet searches
 - Those who participated, 75% acquired useful business skills
- Most information/mentorship about running a business comes from family/friends or work experience
- Not aware of access to programs or training courses
- Technical support needs are mainly in business planning, financial management, and marketing

4. Understand potential for technology to play an increased role in supporting enterprise growth

- Very few purchases of inventory or sales of products are conducted via e-commerce
- Not much of a belief of how technology can support their business
 - Primarily for marketing via social media (Facebook followed by WhatsApp)
- Few respondents cited that “using technology” is a useful training topic
- There is a stronger interest among potential entrepreneurs on the use, adoption and benefits from digital technology

Role of innovation and technology

I would say not much [innovation]. People, well, Samoa's main economy is agriculture and fisheries, and now people are picking up or starting to go towards agro-processing. So especially from the MSMEs, people are more into, there's a lot of those in the garment industry, you know, sewing and selling textiles, but not so much innovation if you look at the products that we sell and the products that are locally made and being exported. It's mainly the use of these agro-products such as oil, body oil, oil soap, so you know that's what we're used to. The level of innovation is not as much.

Representative of a national government agency

It's huge, now you can buy things online locally. We have what you call Makeki Samoa, which has over 100,000 followers; they sell everything - it's like an eBay, Samoan eBay, and it is changing the landscape here, less reliant on going to the shops because people don't live in the city, most people live out in the village, so it enables them to shop using their fingers on the phone. Samoa still does not have a digital platform overseas to receive payments, and that's another constraint for us.

Representative of a local business association

Recommendations

1. Pilot test of an intervention
 2. Educate the importance of Internationalisation
 - Create support structures
 3. Enterprise Financing
 4. Business Development Support (BDS)
 5. Capacity Building for BDS Providers
 6. Leveraging Technology
-
- *Pacific remains heavily dependent on imported goods and value international inputs: A combination of local and global talent*

Full Report



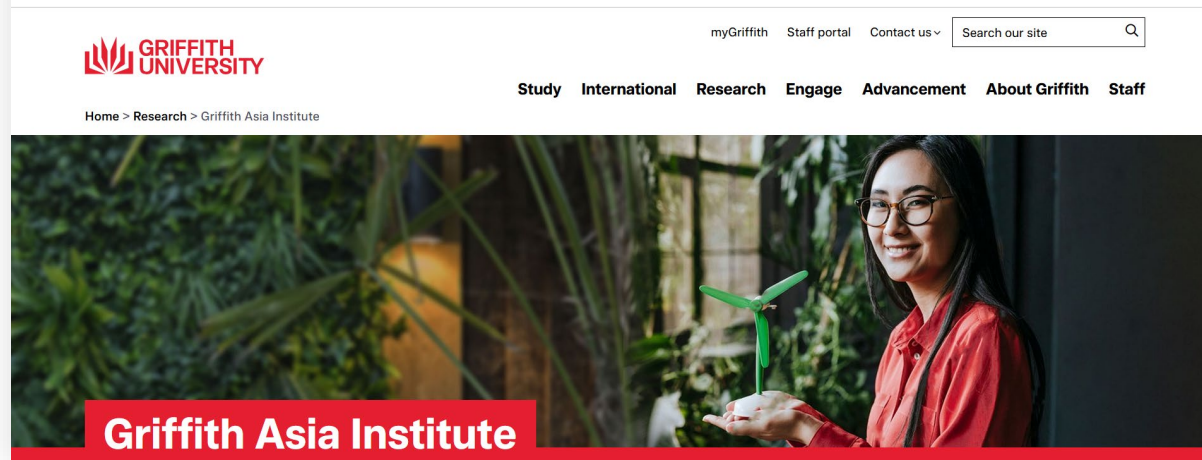
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