



Climate resilience in Small and Medium Enterprises

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Issue 10. Finance, investment and business

Adaptive value chains: SMEs



Importance of SMEs

Job creation



Promote entrepreneurship



Adaptive and innovative



Exports and trade



Growth of income



Social Cohesion



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Importance of SMEs

- Countries with larger share of SME employment have higher economic growth than their counterparts (USAID 2008)
- Essential component of economies worldwide, acting as catalysts for innovation and adding flexibility to broader economic systems (OECD-UN ECLAC, 2012).



40 to 70% to the countries GDP
50 to 90% of all employment

(Applewhite, 2006; ECLAC 2009)



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Vulnerabilities in SMEs

Prone to failure

- Lack of access to **capital** and other funding sources for growth and expansion
- **Information** asymmetries
- High **administrative costs**
- Depend on external **business cycles**



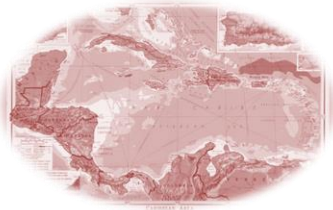
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- High costs of production
- Lack of economies of scale
- Small domestic markets
- Remoteness and isolation



“With a **failure rate of almost 90%** for new businesses, the financial institutions may say they are legitimately being cautious”

An estimated 6,000 businesses are started annually in Jamaica; and a **failure rate of approximately 50%**.

Moonilal Lalchan - President
T&T Chamber of Commerce, 2013

Development Bank of Jamaica Limited,
2013



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Climate change: a very material issue



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Climate change: a promising issue



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Climate change



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Supplier Relationship Management (SRM)	Internal Supply Chain Management (ISCM)	Customer Relationship Management (CRM)
Procurement: <ul style="list-style-type: none"> • sourcing • negotiating • buying • pricing Supply collaboration Design collaboration	Strategic planning Demand planning Supply planning Logistics Infrastructure design and upkeep Operations Health and safety	Understanding market demand Customer expectations Pricing Sales Order management and fulfilment Distribution
<small>Source: Environment Agency / Acclimatise 2013</small>		



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Less control over the market

Less information

Less ability to diversify



Lower adaptive capacity

Perceived lower bargaining power



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Adaptation measures: Challenges



- Enforcing contractual conditions
- Access to alternative suppliers and markets
- Diversifying product lines
- Stockpile
- Insure for business



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The burdens of being small

“Most small firms do not receive adequate assistance from government with regard to the impacts of climate change”

Crichton, D. (2006)



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But



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Adaptive capacity at the local level	
Characteristic	Features that reflect a high adaptive capacity
Asset base	Availability of key assets that allow the system to respond to evolving circumstances
Institutions and entitlements	Existence of an appropriate and evolving institutional environment that allows fair access and entitlement to key assets and capitals
Knowledge and information	The system has the ability to collect, analyse and disseminate knowledge and information in support of adaption activities
Innovation	The system creates an enabling environment to foster innovation, experimentation and the ability to explore niche solutions in order to take advantage of new opportunities
Flexible forward-looking decision-making and governance	The system is able to anticipate, incorporate and respond to changes with regards to its governance structures and future planning

Source: Frank and Buckley (2012)

ODI 2015

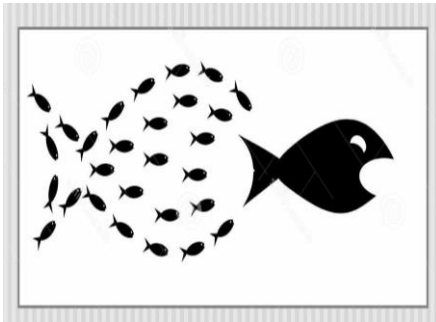


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The “**network paradigm**”, described by Cooke and Morgan as a distinct economic organisational form where “transactions occur neither through discrete exchanges nor by administrative fiat, but through networks of individuals or institutions engaged in reciprocal, preferential, mutually supportive actions” (1993)



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Building **climate resilience** in SMEs

Collaboration

- Promote regional collaboration and partnership among SMEs
- Encourage business linkages between MSMEs and large corporations towards integration into national and global value chains
- Generate networking opportunities amongst entrepreneurs



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Building **climate resilience** in SMEs

Develop targeted national clusters and adequate network structures

- Should be designed to promote cooperation, learning and positive externalities among SMEs.
- Create One-Stop-Shops for MSMEs to access services

Generate incentives for more appropriate forms of financing for SMEs

- Improve access to climate finance
- Promote business to business collaborations



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Taking a **supply chain approach** to building SMEs resilience

Evaluate risks and opportunities at the supply chain level and promote climate resilient initiatives that take a full supply chain approach



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Recap.

- SMEs are very important to the economy
- They are nonetheless very vulnerable to climate and social stressors and shocks
- Risk and adaptation measures for SMEs are different than those of larger companies
- Strategies for supporting SMEs climate resilience should foster collaboration and action at the network level



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