

Strategic Market Management & Planning

***Statement by Raul Calvet, President Calvet & Associates to:
The United Nations Business Hearing on Financing for Development
October 11, 2007***

- **Why am I here today?**
- I believe we have an historic opportunity but we are failing to succeed in many areas. The Monterrey Consensus recognizes that the private sector is critical to economic growth, job creation, and poverty reduction. However, to succeed, governments need to revolutionize the way they deal with the private sector not from a position of independent supreme entities but as integral part of our society, empowered by the common citizen to fulfill the obligations of administering our countries de best possible way.
- Much has been discussed why Latin America is so much behind Canada and the United States even though we are in the same continent and we all started at the same time in history. With out elaborating in the answers it intrigues me why the same immigrant (legal or illegal), that in their countries of origin avoids taxes, do not pay much attention to the law and is not a productive person, just by entering to north America he actively participates in the economy, abides by the law and contributes with his taxes. Every single day millions of immigrants prove that it is not our culture or the people that prevent development and growth in our countries. It is the system that is not working. Economic policies and development can not prosper freely because they are trapped by permanent political struggle. Constituents do not have influence and democratic control over their representatives because they do not elect them directly. This creates a permanent confusion about which are the important objectives as well as it distorts the concepts of which should be the best practices to improve the economy.
- Developing country governments need to focus on existing investors, medium size private sector companies, domestic and international, and not polarizing the efforts in practical terms by just attracting large investors or giving micro-loans to the poor, now the new synonymous of SMEs.
- Governments need to improve the communications and methods they use for working with existing investors, so they can be more effective across governmental agencies in reducing bureaucratic red tape and improving basic services, such as water, electricity, and roads and facilitating investment.
- Nicaragua has been a Monterrey Consensus pilot country funded by the Swiss government to develop such a communication system: an intranet-based communication platform that is managed by the government to collaborate with existing private sector companies in identifying investment impediments and resolving them. Called the Government-Investor Network (GIN), such management tool need to be used by governments to "contribute with the creation of business-enabling environments" critical to economic growth.

Strategic Market Management & Planning

Business people will work with governments to implement the Monterrey Consensus, but we need you as governments to demonstrate political will and adopt real and practical management systems.

- In short, we need to move from "words to action" as the speed of investment and development could not wait for completion of bureaucratic procedures when business opportunities are identified. As a businessman, I recognize the fact that

Strategic Market Management & Planning

Not even 3% of SME's in Nicaragua employs more than 6 people. Actually 96% have less than 5 employees. Of the non-agricultural SME's almost 60% are in retail and general commerce and services. It is very hard to understand the dynamics of progress with this appalling numbers. It is irresponsible to place in the shoulders of these small and micro businesses the burden of developing our economies and building the future of millions of other citizens, especially after seeing the slow growth per capita in the last decades and the poor performance in competitiveness indicators. Years and years of these programs have wasted the contributions of donor countries. There are economic activities like agriculture in which micro enterprises are bringing excellent results, but you should look for better qualified medium size companies to develop other areas that demand more sophistication. SME's as conceived under the Latin American lower standards, should be a part of the economic development efforts, but for sure we need to look to other higher levels of entrepreneurship if we want to catch up with the rest of the world. In Nicaragua less than 43% of our SME's have enjoyed one bank loan, compared to 87% in Thailand or Malaysia. We agree totally with Tilman Altenburg comments in 2004,..."SME's in Latin America seem to flourish during economic crisis periods, as a desperate result of not finding decent jobs in larger businesses"....

Governments neglect the basic engine of development – national and foreign small and medium-sized firms that create jobs and linkages to larger companies. Governments tend to focus on investment promotion rather than investment aftercare. Sixty percent of investment is reported as re-investment by existing firms, not investment by new companies. The cost of inhospitable business environments is illustrated by tourism investment "leakage" in Nicaragua: over 40% of new investors leave after a few months due to frustrations with the local business regulatory environment. Promotion agencies and programs little by little veer to concentrate only in attracting large investments.

- **So what is the solution?**
- Governments need to have "systems" and tools that enable them to be effective in their outreach to existing private sector companies. They need to use these "communication and management systems" to create business-enabling environments stated in the Monterrey Consensus. These communication systems can increase government capacity to:
 1. Identify investment impediments - such as bureaucratic red tape, permits and licenses and problems with infrastructure such as energy, water, waste water, roads, etc.
 2. Improve intra-governmental coordination on resolving these problems
 - 3.

Strategic Market Management & Planning

- So, in closing, let me repeat:
- There is no future without a proper “systematic tools” that enable governments