**Introduction**

After nearly a decade of continuous expansion, GDP growth in Latin America will slow from 4.4% in 2011 to 3.2% in 2012 and 3.5% in 2013. The outlook remains relatively positive, but is exposed to global uncertainty and volatility. In addition to the slow growth of OECD countries, the slight slowdown of the Chinese and Indian economies, which have been key drivers of global growth and demand for Latin America’s raw materials, is also expected to have a moderating impact.

In this context, the need for addressing the structural issues of competitiveness and productivity of economies in the region is crucial. Small and medium enterprises (SMEs) must play a central role in unleashing Latin America’s growth potential and creating higher quality jobs. They represent an overwhelming majority of private enterprises in the region: SMEs account for 99% of businesses and employ 67% of employees. However, their contributions to GDP and overall productivity are low: whereas large firms in Latin America have productivity levels 6 times higher than those of SMEs, this difference is only 2.4 times in OECD countries. A common problem for SMEs is not so much their size, but their isolation in the productive structure, which makes them unable to scale up production and specialise.

The fifth edition of the International Economic Forum on Latin America and the Caribbean provided the opportunity to discuss these challenges and to share solutions for sustainable economic development in the region. After providing an overview of the economic outlook of the region, the Forum asked how governments in the region can engage reforms in favour of higher productivity by more adequately addressing the needs of SMEs and by better including them in the production structure.

The Forum has been organised since 2009 by the Development Centre of the Organisation for Economic Co-operation and Development, the Inter-American Development Bank and the Ministry of Economy and Finance of France. Every year, it convenes leaders from public administrations and the private sector, from Europe, Latin America and the Caribbean, as well as representatives of international organisations and academia, for dynamic and engaging debate on issues surrounding the region’s economic growth and development.
Programme

8:00 – 8:45  Registration and coffee

09:00 – 10:00  Opening remarks
  Nicole Bricq, Minister for Foreign Trade, France
  Angel Gurría, Secretary General, Organisation for Economic Co-operation and Development (OECD)
  Luis Alberto Moreno, President, Inter-American Development Bank (IDB)

Session 1  Enabling the Environment for Growth and Productivity: the Macro-Economic Outlook
10:00 – 11:15  Roundtable discussion
  How do the region’s growth prospects for 2013 compare with OECD countries, as well as other emerging economies and regions? What lessons can be drawn from these comparisons for the definition of policy priorities? How does the global outlook affect the region’s economic outlook?
  Panellists:  Fernando Aportela Rodríguez, Undersecretary of Finance and Public Credit, Mexico
  Edgar Ayales, Minister of Finance, Costa Rica
  Luis Castilla, Minister of Economy and Finance, Peru
  Frank De Lima Gercich, Minister of Economy and Finance, Panama
  Angel Gurría, Secretary-General, OECD
  Felipe Larrain, Minister of Finance, Chile
  Luis Alberto Moreno, President, IDB
  Claire Waysand, Deputy Director General of the Treasury, Ministry of Economy and Finance, France
  Moderator:  Michael Reid, The Economist

11:15 – 11:45  Coffee break

Session 2  Competing in Global Markets
11:45 – 13:00  Roundtable discussion, including question and answer session
  How can companies from the region and in particular its SMEs be better integrated into Global Value Chains? How can SMEs enhance their competitiveness in a more inter-linked economy? How can the challenge of distributional effects and spill-overs to domestic economies be tackled? What successful policy experiences of integrating Latin American countries into GVCs can be shared, and what can we learn from them?
  Panellists:  Mario Cimoli, Chief of the Division of Production, Productivity and Management, UN ECLAC
  Anabel González, Minister of Trade, Costa Rica
  Ildefonso Guajardo Villarreal, Secretary of Economy, Mexico
  Juan Temistocles Montes, Minister of Economy, Planning, and Development, Dominican Republic
  Mario Pezzini, Director, OECD Development Centre
  Braulio Moro, RFI

13:00 – 14:30  Buffet Lunch for attendees

Session 3  Funding Private Initiative
14:30 – 16:00  Roundtable discussion, including question and answer session
  How can access to finance by the region’s entrepreneurs and SMEs be enhanced? What can we learn from programmes by Public Finance Institutions (PFI) targeting them? What role does public policy have in closing the asymmetry of information and reducing the knowledge gap for SME entrepreneurs in the area of financing instruments?
  Panellists:  Gabriel André Duque Mildenberg, Vice Minister of Trade, Colombia
  Enrique García, President, CAF - Development Bank of Latin America
  Ignacio Lacasta, Latin America Business Director, Retail Banking, BBVA
  Jacques Rogozinski, Director General, NAFINSA (Mexico)
  José Juan Ruíz Gómez, Chief Economist, IDB
  Emilio Ontiveros, AFI
  Moderator:  Emilio Ontiveros, AFI

16:00 – 16:30  Closing
  Key Note Speech by Ricardo Martinelli, President of the Republic of Panama
  Wrap-up by Mario Pezzini, Director, OECD Development Centre
Nicole Bricq, Minister of Foreign Trade of France, conducted an analysis of the relatively mild impact the international crisis has had on Latin America, noting that one of the biggest risks associated with the crisis is the protectionist reflex shown by many countries. She stressed the importance of fighting this trend and maintaining open markets as a way to boost global growth. She also stressed France’s commitment to support this cause through its policies and an active role in international fora, such as for example the role of observer in the Pacific Alliance, of which she underlined the several positive elements.

Angel Gurría, Secretary General of the OECD, announced that despite good performances and a relatively positive outlook, now was not time for complacency in Latin America, and highlighted three challenges of the region. First, much of the growth originates from foreign demand, without strong endogenous growth based on domestic demand, and relatively low productivity. Second, inequality and poverty remain problems of great depth, with 167 million Latin Americans living in poverty. And third, major structural constraints remain and will need to be addressed, in order to improve competitiveness and achieve sustainable and inclusive development in areas such as education, infrastructure, innovation, gender, environment and green growth, participation in global chains value, or informality. Finally, he applauded the fact that two more countries in the region, Colombia and Costa Rica, have begun negotiating their future accession to the OECD.

Luis A. Moreno, President of the IDB, focused his speech on the issue of productivity. He highlighted some challenges to be overcome such as increasing competition in markets, strengthening human capital to support a more dynamic business development, or reducing informality. In particular, he noted that many SMEs remain informal, and that this is a key element that impairs productivity. On the issue of access to credit, he said that the high cost of capital in the region limited many investments. Finally, he stressed the importance of improving the functioning of institutions to promote structural transformation, and spoke of structural development policy and industrial policy instruments that have returned to the regional policy agenda.
Session 1

*Enabling the Environment for Growth and Productivity: the Macroeconomic Outlook*

The first session focused on the analysis of the macroeconomic outlook for the region and of the type of policies to promote growth and productivity increases.

**Fernando Aportela, Undersecretary of Finance and Public Credit of Mexico**, explained that growth in the first quarter of 2012 (0.8%) was slightly lower than projected. The fundamental explanation has to do with the impact of the external slowdown, observed in the shrinking of non-oil exports. In this regard, he noted that the economy can grow at a higher rate, and that it should continue with the reform efforts to increase growth potential, which now stood between 3% and 4%. Reforms must continue to make economies more open and competitive, and should work in the direction of strengthening domestic sources and endogenous growth. Reforms in the fields of telecommunications, education, and tax system are some of the key fields for the coming years. In fact, it is expected that during the second part of the year, proposals to reform the telecoms market and fiscal policy be submitted to national authorities in Mexico. Another key area for improvement is the access to finance of SMEs, which generate 74% of employment in Mexico but only receive 15% of the total credit.

**Edgar Ayales, Minister of Finance of Costa Rica**, focused his presentation on some of the socio-economic challenges the country will have to face in the coming years. He first explained that the country had grown at a rate of 5% per year in recent decades, mainly driven by significant public investment in social policies (education and health) but attention has now turned to supporting private initiative and attracting foreign direct investment. This has left the main social indicators relatively stagnant and risks leading to a weakening of the social contract. A deterioration of public services makes fiscal reform, based on increased tax revenue, difficult to achieve, although it would be key to boost an inclusive growth model. Fiscal reform would also allow for the correction of some deficiencies such as penalty effect of the tax system on labour relative to capital, favouring the latter. Minister Ayales emphasized the importance of the quality and effectiveness of public spending in order to push through fiscal reforms.

**Luis M. Castilla, Minister of Economy and Finance of Peru**, indicated that the burning issue for his country is whether or not it can continue to grow in a sustainable manner. Now that the raw material prices remain high, there exists a great opportunity to implement pending reforms that can strengthen the current economic model. He specifically highlighted productive transformation as key, through a search for diversification and increased productivity. Another important area of reform has to do with the reform of the State, from a role of
planning to one of facilitation. In this field, he showcased some proposals, such as budgeting, greater e-government to reduce corruption and discretionality, creating incentives to motivate effective management at the level of municipalities, a review of the processes of decentralization, etc. He also noted that Peru is still missing an important consensus on issues such as labour market reform, necessary to address significant rigidities. To conclude, he insisted that one should not become complacent in good times, and should be carrying out pending reforms.

Frank de Lima, Minister of Economy and Finance of Panama, stressed the level of diversification of Panama’s economy, and discussed some of the most important catalysts of growth in recent years in addition to the expansion of the Canal, including the creation of the Colon Free Trade Zone, the privatisation of several companies, external liberalisation, the consolidation of Panama as logistics "cluster" and financial centre, or the development of the construction and tourism sectors, among others. He argued that the country could sustain high growth rates in the future, as the government maintains a large investment capacity - up to 10%, which targets strategic sectors able to generate growth and employment, such as logistics, tourism and finance. Infrastructure projects will also remain very important – among these, a new airport terminal, new regional airports, the expansion of the road network, etc. He also highlighted efforts to create an attractive investment climate for foreign direct investment, which represents 8% of GDP. He stressed the numerous steps taken to reduce the level of money laundering in the country, mainly through legislative reforms and adherence to international agreements. Finally, he said that attention should be given to higher value-added industry as well as social issues.

Felipe Larraín, Minister of Finance of Chile, stressed that commodities play a diminishing role in the growth of the Chilean economy, and investment has been taking over as a key engine of growth, with 15% domestic investment. This investment is directed to a variety of sectors beyond mining, including energy, telecommunications, or infrastructure. He drew your attention to the importance of further promoting productivity growth, now increasing at 1% per year, mainly in the public sphere, where progress has already been made through programs like Pay Chile, aimed at reducing supplier payment delays to 30 days, or Chile Manage, which seeks to reduce inefficiencies associated with absenteeism, medical leave etc. Finally, he highlighted that investments were being undertaken to promote the supply of energy and to alleviate the energy shortage, a field in which it considered that the Pacific Alliance is a great opportunity for Chile.

Claire Waysand, Deputy Director General of the Treasury of France, focused her presentation on the euro crisis, noting that the solution to the crisis should be based on national policies to restore internal balance, but also to advance political integration at a European level in banking and taxes, among others. In this regard, she stressed the importance of a Banking Union at a European level, a prospect she showed optimism for, and that should be based on three pillars: a sole supervisor, a crisis resolution mechanism and a guarantee deposit scheme at the European level.

Angel Gurría, Secretary-General of the OECD, stressed that the political and economic agenda in the region in the coming years should focus on necessary reforms. In this context it is essential not to become complacent given the good performances and relatively positive outlook. Many economies in the region are running out of room for manoeuvre when it comes to economic and fiscal policies. It is therefore essential to address fundamental reforms in areas such as education, the fiscal, labour reform, green growth, innovation, and many others cited by the distinguished panellists, before time runs out.

Luis A. Moreno, President of the IDB, began his remarks by noting that the key messages by the distinguished panellists, representing various countries of the region, underscored the deep need for reform and that the debates and discussions were right on target. He highlighted the fact that future growth must start from within the region and sources of endogenous growth need to be strengthened. He emphasized productivity as a key issue, highlighting innovation and education as basic elements to increase it.
The second session provided the setting to discuss how SMEs can be better integrated into global markets.

Anabel Gonzalez, Minister of Foreign Trade of Costa Rica, said that integration into the global economy was crucial to a small country like hers that cannot rely on natural resources as an engine of growth. Global value chains present a key opportunity for development, since these chains allow a country without raw materials or a long history in manufacturing to participate in international trade. In order to more efficiently exploit and integrate into Global Value Chains, the minister mentioned the need to increase productivity and to promote a greater inclination of tertiary education towards science, the mastery of languages, and access to technical education. She also indicated that the education sector needed to contribute to the better alignment of demand and supply in the labour market.

She also mentioned that many challenges remain in Costa Rica and that while a variety of horizontal policies exist; more micro level actions also involve high levels of co-ordination. The Minister pointed out that promoting complementarity in Latin America and achieving access to Global Value Chains requires a reduction of trade costs and meeting compliance certifications or technical standards, among other measures.

Mario Cimoli, Head of Division of Production, Productivity and Management from UN-ECLAC, indicated that productivity in Latin America continues to be low and there is a need for reforms that support the diversification of production structures towards higher productivity sectors, as employment absorption alone in Latin America will not increase productivity. Achieving this goal requires a continuous search for new activities, new industries and new companies. To make a long story short, there is a need for diversification that can absorb employment in higher productivity sectors.

He also emphasised the new momentum for foreign direct investment (FDI), where it is necessary to attract high quality FDI, drawing it into sectors capable of enhancing productivity that the government has specifically decided to support, or into activities that are capable of creating innovation, technology and research.

He also noted that to take advantage of the new Latin American industrial technological revolution, production and innovation centres should be located within proximity of each other. This will also require industrial policies and increased spending in science and technology.
Ildefonso Guajardo Villarreal, Secretary of Economy of Mexico, said that despite the economic liberalisation in Mexico, exports are concentrated in a few companies and their benefits have been uneven across regions of Mexico.

He emphasized Mexico’s the macroeconomic stability and the importance played by small and medium enterprises in the country’s economy. The Secretary indicated that it is necessary to learn how to use new statistics developed by the OECD in terms of value chains to integrate SMEs into export chains, and pointed out that protectionism is a real threat, since an import tax may turn to be an export tax, as shown by OECD TiVA work. The minister also mentioned the importance for the government to promote innovation in and funding for strategic sectors which possess a comparative advantage.

The Secretary also mentioned the importance of repositioning Mexico in Latin America using the example of the Pacific Alliance.

Juan Temistocles Montas, Minister of Economy, Planning and Development of the Dominican Republic, indicated that SMEs represent an important part of the national economy and highlighted the problems they face in Latin America, including the high cost of electricity, serious management shortcomings, the management of human capital, the availability equipment, a lack of access to information, the lack of connection to global value chains and the inadequacy of funding, among others. The minister pointed out the Dominican government’s efforts to face these challenges and to achieve greater operationality of SMEs. In particular, much attention is given to supporting the formalisation of firms, as their informality constitutes an essential weakness of SMEs.

The Minister also mentioned the need to facilitate access to financial services even in areas or sectors with little formal banking infrastructure. The Dominican Republic has set up a new actor (Sub Agente Bancario), a sort of banking agent, that aims to increase penetration of financial services into these areas, by acting as a bridge between the unbanked and the formal banking sector. He also highlighted the need to tackle one of the great challenges in Latin America -- education.

Mario Pezzini, Director of the Development Centre of the OECD, highlighted the global economic context, referring to the structural phenomenon of ‘shifting wealth’, and the role of the SME in this new context. He spoke of two specific trends that create particular challenges for policy makers. First, the commodity boom polarises society through increased inequality as benefits are not equitably reaped. Second, the sustainability of the manufacturing industries in a globalised economy is at risk, because trade openness is not enough and competitiveness and attractiveness need to be explicitly supported.

The Director indicated that there are two ways of looking at SMEs: either as firms with a natural handicap or as competitive companies that form part of a supply chain. In the second case, he highlighted the importance for co-operation and co-ordination within the supply chain where SMEs need to improve their quality, in order to become specialised and intelligent actors that are competitive suppliers in the production chain. He also mentioned the importance of building capacity for co-ordinated action and allowing for room for government intervention.

He also noted that the creation of a nascent but vulnerable middle class in Latin America can be consolidated through support to SMEs. In order to achieve this, governments need to act on the entire value chain and not just a small section of it. He also highlighted the importance of the quality of services provided for the development of SMEs.
Session 3
Funding Private Initiative

The third session of the Forum focused on instruments and policies in the area of financial services for small and medium enterprises.

Gabriel Duque, Vice-Minister of Commerce of Colombia, highlighted that problems exist both from the point of view of supply as well as demand for credit when it comes to SMEs. There are few tools tailored to the needs of companies and existing programmes in general have little coverage. In addition, he emphasised the high level of informality among SMEs, which remains a major structural bottleneck for the region.

Enrique García, President of the Development Bank of Latin America - CAF, spoke of some of the most critical topics in order to increase private participation. The region is in general doing better regarding formal financing from banks for enterprises. There is a deficit, however, of specific instruments for SMEs (e.g. seed capital, venture capital, start-ups), that meet their needs. Investors need to take risks through these instruments to finance SMEs with high potential. Public subsidy programmes have shown in the past that they are not effective. Today, public financial institutions can play a role in identifying companies that have potential for growth and development, and they extend training programmes and guarantee schemes. The experience of CAF in the implementation of its technical co-operation funds has been positive in the region. Ultimately, participation by public entities is still needed, but its specific purpose has evolved.

Ignacio Lacasta, Retail Manager for South America at BBVA, pointed out the significant productivity gap between small and large companies in the region. This problem is not unique to Latin America. The challenge of adapting the current banking model to the reality of SMEs persists. Given the higher risk level involved in lending to SMEs, it is primordial to improve the information that is available about the firms. In this sense, the consolidation of business registers is necessary in several countries.

Mr Lacasta also spoke of the banking model that has characterised the region in recent years. The configuration of Spanish banks in Latin America (at least BBVA), their model of leadership and management is a characteristic shared by most countries of the region. This model reinvests most of the profits in the region,
which can bring positive externalities in the long run. The formalisation of the region’s businesses is key to increasing access to financial services and in particular credit. Better training of entrepreneurs is necessary.

Jacques Rogozinski, CEO of NAFINSA, highlighted the use of market instruments by and for SMEs, beyond the traditional subsidies of the past decades. One example is the auction on interest rate introduced by NAFINSA (with an emission of 3 billion Mexican pesos), that allowed for a decrease of almost 20% of the cost of capital for companies. Auctions for General guarantees have also been successful in Mexico, reaching a level of operations equivalent to 2 billion Mexican pesos. These examples show that there are ways to support access to finance that are not based on an “assistentialist” model. Mr Rogozinski also pointed out the importance of policies that take into account the "skills and scale" of firms, whereby the skill set of SMEs is enhanced and they can grow and develop. He also highlighted the importance of public policies that target SMEs that are not currently integrated in the formal banking infrastructure.

José Juan Ruiz, IDB Chief Economist, insisted that problems in the area of financing in Latin America are also caused by structural shortcomings: low savings rates, few possibilities for issuing in local currency, very low stock of capital per worker ($ 41,000 in LAC versus $ 225,000 in Asia). He also made the critical distinction between SMEs that use certain mechanisms for their financial survival rather than their growth and maturity as firms. Following this logic, it is important to differentiate between the economic role and social role of SMEs in Latin America and the Caribbean – SMEs should receive financing to fund their growth, and to eventually leave behind their SME status. An additional challenge in the region regards measuring the real impact of instruments and programmes that target SMEs.
President Ricardo Martinelli, of the Republic of Panama, pronounced the keynote closing speech of the event.

President Martinelli began his speech by welcoming the initiative of the Journée de l’Amérique latine in France and the International Economic Forum on Latin America and the Caribbean. He then focused his speech on the economic performance and outlook of the region and in particular of Panama. He mentioned that Latin America’s countries have for many years missed opportunities, but this trend has been reversed. Latin American economies are now important actors and no longer spectators of the global economy. The region has experienced significant economic growth, which has improved the quality of life of its citizens and reduced its high poverty rates, although the challenge of inequality persists throughout the region.

The President emphasised that Latin America is a land of opportunity. His official visit to Europe is an opportunity to promote Panama and its healthy prospects, with high growth rates above 10% of GDP growth this year, low unemployment, a budget deficit of 2.1% of GDP, indebtedness at 38% of GDP, and with an aggressive investment programme in infrastructure. He pointed out that for every dollar in Panama’s budget, 40 cents is invested in the construction of roads, hospitals, schools, but also in poverty reduction. He highlighted the good performance of Panama in terms of reduction of poverty, which has decreased from 38% to 25% of the population. In this context, he identified persisting inequality and the quality of education as the main challenges Latin America will have to address while maintaining economic growth.

President Martinelli concluded his speech by advocating for greater commercial ties between Latin America and Europe.
Media and web

The Forum was well attended by the media, including news agencies, TV, print, radio and online media, with over 30 media representatives registered for the event.

RFI, media partner of the Forum, set up a studio in the Conference Centre and interviewed several participants – including President Martinelli of Panama – and broadcast a twenty-minute roundtable interview with the participation of Juan Temístocles Montas, Minister of Economy, Planning and Development of the Dominican Republic, Gabriel Duque, Vice-Minister of Trade of Colombia, and Mario Cimoli, Head of the Division of Production and Business Development UN-ECLAC.

These interviews can be heard using the following links:
- President Martinelli: http://www.espanol.rfi.fr/americas/20130531-martinelli

Some selected headlines following the Forum are:
- Portafolio: Informalidad y financiación, los retos de las pymes latinas
- Azteca Noticias/Notimex: América Latina debe impulsar crecimiento: OCDE
- El Universal: México abre sus puertas al comercio europeo
- La Información/EFE: La informalidad y la financiación, problemas de las pymes latinoamericanas
- Diario Hoy: Las pymes de Latinoamérica buscan superar sus dificultades
- El Nuevo Siglo/La Prensa de Nicaragua/AFP: Pymes latinach luchan contra la informalidad
- EFE/Terra: Gurría advierte a Latinoamérica contra la complacencia por problemas internos
- Notimex/Crónica de Hoy: Economía de América Latina crecerá 3.5% en 2013: OCDE
- La Prensa de Nicaragua/AFP: Viento no sopla a favor de AL
- El Universal: Piden OCDE y BID reformas estructurales a Latinoamérica
- El Diario Financiero: Acceso al crédito e informalidad, principales enemigos de pymes en Latinoamérica dicen expertos
- HRN Radio: Economía de América Latina crecerá 3.5% en 2013: OCDE

A new social media tool installed on the forum website made this year’s forum very interactive. Throughout the day, Ministers, panel members and the audience were sending tweets and comments that were projected on the screen which initiated discussions. 503 tweets were sent with the hashtag #LACFORUM on 31 May and in the days after the Forum, generating 1.550.956 impressions.

The official website of the Forum (www.oecd.org/site/lacforum) generated almost 10,000 hits in the lead-up to and on the day itself.
About...

...the organisers

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. The OECD Development Centre, whose membership is open to both OECD and non-OECD countries, occupies a unique place within the OECD and in the international community. The Centre counts eight member countries from the Latin America and Caribbean region. The 2013 edition of the Centre’s Latin American Economic Outlook looks at the theme of SME Policies for Structural Change. -- [www.oecd.org/dev](http://www.oecd.org/dev)

The Inter-American Development Bank (IDB) is the largest source of development financing for Latin America and the Caribbean. Since its creation in 1959, the IDB works for the economic and social development of the region. It provides loans but also grants and technical assistance. The IDB counts with 48 member countries, including 26 Latin American and Caribbean borrowing members, who have a majority ownership of the IDB. -- [www.iadb.org](http://www.iadb.org)


...the media partner

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