



## Final Report

## Intra-Regional Relations

*Regional Meeting on productive transformation in the digital era: An opportunity for MSMEs in Latin America and the Caribbean*

*Montevideo, Uruguay*

*29 and 30 April 2019*

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## INTRODUCTION

### I. RAPPORTEUR'S REPORT

1. The "Regional Meeting on productive transformation in the digital era: An opportunity for MSMEs in Latin America and the Caribbean", organized by the Permanent Secretariat of the Latin American and Caribbean Economic System (SELA), together with the Ministry of Industry, Energy and Mining (MIEM), the National Development Agency (ANDE) and the National System of Productive Transformation and Competitiveness of the Eastern Republic of Uruguay, took place on 29 and 30 April 2019 in Montevideo, Uruguay.
2. The objectives of the meeting were as follows: create a space for discussion on the main challenges and opportunities for the countries of the region in the transformation efforts of their productive matrix; assess the current state of the implementation of a regional digital agenda that fosters growth and productivity with special attention on SMEs; and, learn about best practices from the use of digitisation in the inclusion of MSMEs in the business partnership programmes.
3. Participants included representatives from the following Member States of SELA: Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Nicaragua, Peru, Dominican Republic and Uruguay. Also attending the meeting were representatives of the Central American Bank of Economic Integration (CABEI), the Inter-American Development Bank (IDB), CAF-development bank of Latin America, the Regional Centre for the Promotion of SMEs in Central America (CENPROMYPE), the Economic Commission for Latin America and the Caribbean (ECLAC), the United Nations Industrial Development Organization (UNIDO) and the Organisation for Economic Cooperation and Development (OECD).
4. Speakers during the opening session included: Mr Rafael Mendive, Director of MIEM-Dinapyme of Uruguay; Mr. Alvaro Ons, Secretary of Productive Transformation and Competitiveness of Uruguay; Mr. Ángel Cárdenas, Director of Infrastructure Projects, Southern Region, of CAF-development bank of Latin America; and Ambassador Javier Paulinich, Permanent Secretary of SELA.
5. The event started with a session to analyse the progresses and prospects of some of the productive transformation programs in the region. In particular, they discussed the main objectives set out in productive development plans, the projects and the areas for intervention defined as priority, as well as the inter-institutional articulation strategies supporting these programs. Thus, participants gained knowledge about the main results achieved and the major guidelines governing the work agenda in view of persisting challenges.
6. Then, during the following seven sessions of the meeting, they discussed various thematic areas to get to know the capacities of the countries of the region to promote the transformation of their productive matrices.

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7. First, they evaluated the role of micro, small and medium-sized enterprises (MSMEs) in the economic structure of Latin America and the Caribbean. The OECD, CENPROMYPE and ECLAC agreed that nine out of ten companies of the region are SMEs, contribute about 30% of GDP, generate 60% of formal employment, but only 5% of them export products.
8. The great structural challenge for Latin America and the Caribbean is the low total factor productivity (TFP). TFP is barely half of that reported by the United States. In detail, with similar levels of labour force participation, in Europe micro-enterprises provide 20% of the total production while in Latin America they generate only 3.2% of GDP.
9. In general terms, the economic growth in the region has been leveraged by the accumulation of production factors such as capital and labour, while efficiency in the use of resources has deteriorated. However, the end of the commodity super cycle has forced economies to rethink its growth strategies with greater openness to the rest of the world and the diversification of their exports.
10. However, Latin America and the Caribbean suffers from low levels of competitiveness and technological sophistication, which hinders its integration in the global economic dynamics. For this reason, there is consensus on the need to transform the productive structures in order to increase the value-added activities of greater economic complexity, with greater efficiency in traditional sectors.
11. According to the results of the Public Policy Index for MSMEs, prepared by the OECD and CAF-development bank of Latin America, in collaboration with SELA, the countries of the Pacific Alliance, Argentina, Ecuador and Uruguay obtained a score of 4.01 over 5 in their efforts to promote productive transformation through their policies to increase productivity, improve productive conglomerations and promote integration into value chains.
12. MSMEs are key actors in promoting economic and social development, and in order to capitalize on their potential, it will be necessary to increase their capacities to reap the benefits of the new digital technologies through reforms and comprehensive support programs.
13. In the second session of the event, speakers highlighted the importance of public management in the provision of goods and services for productive development. Having a population with higher aspirations and greater confidence in the public-private relationship, the functions of governments will need to expand their radius of action and modernize their procedures with the use of digital technologies that facilitate the interaction with citizens.
14. At present, the implementation of Digital Government strategies has been based on the principles of proximity with citizens, efficiency, reliability, comprehensiveness, openness and intelligence. The objective of this is to pursue a reduction in the number of requirements, costs and time to conduct a procedure, increase transparency and accountability, improve the quality of goods and services, promote efficiency in the use, management, and interoperability of the information in the different branches of government, ensure the privacy of sensitive data, and encourage citizen participation.

15. With a modern State, entrepreneurship and business activities gain in terms of competitiveness not only because of the simplification of bureaucratic requirements and a decrease in the costs that impact their cost structure, but also because of the opportunities generated by the opening of data for innovation of the productive sector and a greater capacity of governments to meet the needs of the private sector and to respond to its demands.
16. Electronic signatures, online procurement portals, interactive contact with citizens, trade and electronic billing are examples of good practices of e-government available at present in some countries in the region. However, despite notable progress in the provision of transactional services, above all in the field of public service payments and taxes, Latin America and the Caribbean still shows substantial shortcomings compared to advanced countries.
17. Thirdly, participants dealt with the innovation efforts within the context of productive transformation programs. The approach was based on the Oslo Manual (2005) definition, which describes innovation as the conception and implementation of significant changes in the product, the process, marketing or the organization of the company, with the purpose of improving the results.
18. The innovation system must be comprehensive and cross-cutting to all sectors. On the one hand, the government should promote institutional innovation with reforms and policies aligned with the collective needs. On the other hand, the productive innovation should be led by the private sector for the development of new products and processes with the support of programmes of joint production, adoption of technology, as well as research and development. And finally, the academic and research centres should be at the forefront of scientific innovation in addition to boosting the formation of human capital.
19. One of the main factors for low productivity and competitiveness in Latin America and the Caribbean is the weak dynamics of innovation. The perception of a high cost, the fear of failure, lack of support, and the lack of knowledge and skills are the main barriers for a better performance in the development of products and disruptive processes, as well as an optimal use of the advantages offered by the new technologies.
20. In order to face such constraints, the following working sessions discussed and analysed policy strategies for the integration of digital technologies in the business sector, on the basis of a specific diagnosis of the current needs and highlighting the importance of business partnerships and technology transfers.
21. The emergence of the Fourth Industrial Revolution (Revolution 4.0) has resulted in major changes in all spheres of society. Technology trends such as the Internet of Things, the cognitive automation, artificial intelligence, robotics and the analysis of large volumes of data have been disruptive agents in the traditional conception of communications, business models and industrial processes. As a result, the most advanced countries have implemented programs and projects to refocus the strategic efforts and capitalize on the opportunities of such advances. In contrast, an emerging concern about the advantages of these new technologies is evident even in the most industrialized Latin American countries.

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22. The Development Index of the Digital Ecosystem, of CAF-development bank of Latin America, shows in detail the gaps in the region in the various thematic blocs associated with the digitization. Connectivity, research and development, and the digital infrastructure are areas with increased lag when compared with member countries of the OECD. Only in the dynamics of competition is where Latin America achieved a score similar to that of advanced countries.
23. As progress is achieved in the most backward areas, it will be possible to deepen the implementation of new technologies in order to build an Industry 4.0 that results in higher levels of productivity and competitiveness.
24. There are outstanding examples of successful initiatives in the promotion of the incorporation of new technologies in the business sector and projects in Latin America. The Centre of Industrial Automation and Mechatronics of Uruguay, the project Nuevo León 4.0, the project Industria 4.0 of the National Institute of Industrial Technology of Argentina and the centres of Innovation and Technology Transfer of Peru are examples of great efforts in the field of research and training for digitization, within an environment of broad institutional articulation and close public-private collaboration.
25. Finally, the eighth session addressed the importance of financing for the development of productive transformation programs. In this connection, emphasis was made on the role of financial intermediation for developing large infrastructure projects and the need to create financial products that promote innovation and the adoption of new technologies.
26. The closing session featured the participation of Mr. Guillermo Moncecchi, Minister of Industry, Energy and Mining (MIEM) of Uruguay, Mr. Andrés Tolosa, President of the National Administration of Telecommunications (ANTEL) of Uruguay, and Ambassador Javier Paulinich, Permanent Secretary of the Latin American and Caribbean Economic System (SELA).
27. The presentations of the event can be consulted at: <http://www.sela.org/es/eventos/2019/04/transformacion-productiva/agenda/>.
28. 28. The photographs of the event can be seen at: <http://www.sela.org/es/eventos/2019/04/transformacion-productiva/fotos/>.
29. The videos of the event can be seen at: <http://tv.vera.com.uy/canal/19153>.



**II. CONCLUSIONS**

1. The countries of Latin America and the Caribbean have all been diagnosed with low productivity, low competitiveness levels and high concentration of exports in primary goods. Although worldwide, it is a reality that small and medium-sized enterprises experience productivity levels lower than those of large enterprises, the gap is much more marked in the region.
2. About 65% of the factors explaining productivity performance are associated with the inner functioning of the company. Examples include managerial skills, the level of human capital of workers, financing, formality and the adoption of new technologies. In turn, the macroeconomic environment, the institutional framework and the quality of the infrastructure and logistics form part of the external determinants.
3. Within the framework of Revolution 4.0, Latin America and the Caribbean must face the growing challenges posed by new technologies in order to broaden its production capacities in an environment of greater connectivity and competitiveness.
4. The promotion of productive transformation is a top-priority task in national development programs. According to the results of the Index of Public Policies for SMEs implemented in the countries of the Pacific Alliance, Argentina, Ecuador and Uruguay, the development of policies in this area are at an intermediate stage.
5. In such efforts, digital technologies have become a necessity and a source of opportunities for the development of new productive sectors. With the use of new technologies, it has been possible to facilitate and simplify information and communication flows, reduce production costs and increase the quality of products. This has resulted in greater access to global markets for suppliers and customers, in the formation of international production chains, thus increasing the quality of products and ensuring greater economic diversification.
6. Within this context, the region must face barriers that limit greater access and use of digitization, such as low awareness of the opportunities offered by new technologies, low training of labour force and obstacles in accessing financing.
7. For that purpose, the adoption of modern regulations and their adaptation, developing digital skills in the academic sector, the creation and implementation of instruments that promote digital entrepreneurship (incubators and accelerators of new) generation and transfer of technologies, seed capital facilities programs, and the design of digitization projects that transcend the stage of incorporation and encourage training, corporate bonding and the development of new technologies; they can mean breakthroughs.
8. At the same time, the strengthening of systems of integrated innovation with the collaborative participation of the government, the private sector, the academia and society, within a framework of environmental sustainability should be encouraged. This effort must be assisted by a sustained increase in expenditure on innovation which currently reaches 0.8% of GDP in the region, in contrast to European countries where it is located above 4%.

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9. In addition, the need that the productive transformation process is accompanied by the modernization of public management stands out. A more sophisticated State will promote the development of more complex economic sectors and higher added value.
10. Finally, participants in the event recognized the importance of these areas of discussion to generate synergy and sharing of experiences and good practices. In this regard, we thank SELA for holding the meeting and urged the organization to continue working on these issues to accompany the processes of reform in Latin American and Caribbean countries.



