

POLICY BRIEF



Sustainable Industrialisation in LMICs: The Role of MSMEs

2025

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Trade and
Investment

Abstract

This policy brief discusses the key barriers, principles, and support mechanisms for sustainable industrialisation in developing and low-income countries, focusing on the role of micro, small, and medium-sized enterprises (MSMEs) from a perspective shared by the North and the Global South. It outlines the key barriers to developing shared investment frameworks for sustainable industrialisation, including limited access to financing – especially for green projects, which disproportionately affect MSMEs – policy fragmentation and weak collaboration between state and non-state actors, which further impede coherent investment strategies; and capacity gaps regarding sustainable industrialisation policies. Overcoming these challenges requires targeted actions like enhancing infrastructure, improving green financing, policy alignment, capacity building, and fostering multistakeholder partnerships and interministerial coordination. The analysis also focuses on the guiding principles established under the Investment Facilitation for Development Agreement aimed at promoting better, higher-quality, responsible, fair, and sustainable investments, along with actionable recommendations to facilitate their implementation for human-centred investments.

The brief advocates for three main support mechanisms from a territorial, sustainable, multistakeholder, and multilevel perspective: 1) microcredit and green investment funds; 2) international and regional alliances to promote sustainable global and regional value chains; and 3) the promotion of local public policies for sustainable business management. It also highlights the need for the G20 as a key space for multilateral cooperation for the coordination of public–private policies that strengthen inclusive and sustainable governance. In this context, the Investment Facilitation for Development Agreement offers a strong institutional framework to organise and align efforts, enhancing collaboration and ensuring effective implementation. This approach aims to shift the conventional framework of international economic cooperation, which is based on a state-centric and public-centric model, towards a bottom-up strategy that emphasises sustainable industrialisation tailored to the unique needs of each region worldwide. The goal is to harness the G20's influence to promote inclusive investment for sustainable industrialisation from a multicentric and comprehensive standpoint, engaging the efforts of diverse stakeholders.

Keywords: Sustainable Industrialisation, Msmes, Investment, Financing, Green Projects, Capacity Building, G20

Diagnosis

Sustainable industrialisation is a cornerstone of inclusive economic growth, job creation, and climate resilience, making it a critical priority for the G20. As the premier forum for international economic cooperation, the G20 plays a pivotal role in shaping global investment frameworks that bridge the gap between developed and developing economies. Countries can pursue various paths to industrialisation, and the benefits of industrialisation depend on effective management and integration into development strategies. To contribute to sustainable development, industrialisation must align with environmentally responsible policies.

According to the UN Industrial Development Organization, 'developing countries are witnessing alarmingly slow industrialization or even de-industrialisation.'¹ Given the projected high levels of poverty and malnutrition in many low- and lower-middle-income countries, establishing a dynamic manufacturing sector is crucial. Strengthening manufacturing capabilities allows these nations to integrate into value chains, enhancing economic resilience and growth.²

In that context, a shift is imperative: developing countries must accelerate industrialisation through a transformative strategy that includes competitive MSMEs and sustainable investments.

MSMEs account for 90% of businesses, 60% to 70% of employment, and 50% of global gross domestic product.³ They contribute substantially to SDGs 8 and 9 by driving transformation, employment, and inclusive growth. However, MSMEs face

¹ UN Industrial Development Organization (UNIDO), *The Future of Industrialization. Building future-ready industries to turn challenges into sustainable solutions*, (2024), 5.

² UNIDO, *The Future of Industrialization*, 14–15.

³ UN, "Micro-, Small and Medium-sized Enterprises Day, 27 June," June 2023.

severe constraints in accessing capital, particularly for green projects. Traditional financial systems often exclude them due to high interest rates, collateral requirements, and underdeveloped capital markets. International climate finance also bypasses them due to complex application processes.⁴

Another obstacle is the disjointed national and international policies, which hinder investment strategies. Fragmentation and weak multilevel collaboration cause inefficiencies, and many Global South countries lack the institutional capacities to align industrialisation with sustainability.⁵

Finally, capacity gaps in industrial policy and implementation, lack of institutional expertise, infrastructure, and digitalisation limit the adoption of green technologies and circular models. Industrial growth also depends on fair competition, access to markets, and improved conditions for investment.⁶

To enhance foreign direct investment flows, frameworks should align with the Investment Facilitation for Development Agreement, which promotes a more transparent and efficient business climate.⁷

In developing countries, the industrial sector can only grow through fair competition, equitable trade practices, and access to global, regional and local markets.⁸ The G20 South African presidency's efforts to convene discussions on the cost of capital are critical in highlighting these systemic, chronic challenges.

⁴ Wehnert, Peter and Beckmann, Markus. "Crowdfunding for a sustainable future: A systematic literature review." *IEEE Transactions on Engineering Management* 70, no. 9 (2023): 3100–3115.

⁵ Altenburg, Tilman and Rodrik, Dani. "Green industrial policy: Accelerating structural change towards wealthy green economies." *Green Industrial Policy* 1 (2017): 2–20.

⁶ Biggeri, Mario, Ferrannini, Andrea, Mehrotra, Santosh, Di Tommaso, Marco R. and Bianchi, Patrizio. "Sustainable human development, capabilities and the new trajectories of industrial policy." In *Handbook of Industrial Development*, 106–131. Edward Elgar Publishing, 2023.

⁷ World Trade Organization (WTO), Investment Facilitation for Development Agreement. (WTO, 2024).

⁸ UNIDO, The Future of Industrialization.

In today's integrated economy, expanding investments requires simplifying processes and upholding responsible business standards.⁹ By prioritising sustainable industrialisation, the G20 can help rebalance global governance, ensuring frameworks are growth-oriented, environmentally responsible, and socially inclusive.

Recommendations

Three main support mechanisms, from a territorial, sustainable, multisectoral and multilevel perspective, are proposed to be articulated and led by the G20:

1. Promote green and inclusive financing for MSMEs in LMICs

To support MSMEs, the creation of green and sustainable financing is needed. A G20-backed Multistakeholder Platform for Green MSME Finance is proposed, designed to catalyse funding and technical support for MSMEs through innovative, sustainable, and inclusive mechanisms. Rather than relying only on traditional public contributions, this platform would leverage blended finance instruments and public-private partnerships to mobilise public, private and philanthropic capital at scale. A multi-level public responsibility perspective is promoted, including national, subnational and local states. Countries are encouraged to contribute, according to capacities, sustainable and accessible loans as well as non-repayable funds for small and medium-sized enterprises. Priority should be given to the most vulnerable countries, and efforts should be made to reach the least developed areas of these countries.

⁹ WTO, Investment Facilitation for Development Agreement.

The platform can dovetail broader efforts to scale up country-level platforms for fair green transitions, with important parameters and safeguards to ensure the autonomy and sovereign right to development for the recipient country. This platform would:

- identify and connect MSMEs with aligned investors and financiers;
- disseminate official, high-quality, and accessible information to improve transparency and reduce entry barriers;
- actively promote the principles and commitments of the Investment Facilitation for Development Agreement to support a more predictable and inclusive investment environment;
- provide a permanent space for consultation among G20/B20 experts and local stakeholders;
- support capacity building for MSMEs and local institutions to improve investment-readiness;
- provide technical assistance grants to strengthen local ecosystems and value chains;
- provide performance-based co-financing from the private sector and philanthropic foundations, conditioned on climate, gender, and inclusion criteria; and
- support the development and dissemination of national green credit lines for MSMEs, especially in low- and middle-income countries (LMIC), ensuring these mechanisms are transparent, accessible, and inclusive, particularly for women, youth, and vulnerable entrepreneurs, and supported by regional development banks and international cooperation agencies.

The thematic areas that will be prioritised for financing are infrastructure projects, improving green financing, policy alignment, capacity building, and fostering multi-stakeholder partnerships. This should especially seek to promote the green innovation and sustainable energy transition sectors.

As evaluation criteria for allocating funds, it is suggested that the local resources of the countries involved, international and multisector cooperation and a gender perspective with the inclusion of vulnerable stakeholders be considered.

2. Promote sustainable global value chains

G20 countries should support the development of regional dialogues with non-G20 countries, as well as roundtables through North–South and triangular cooperation, to promote sustainable global value chains. The work plan should include:

- a. leadership by G20 countries, with countries from each region invited to participate;
- b. non-reimbursable financing for local North–South cooperation projects and programmes;
- c. accessible financing for regional and international North–South and triangular cooperation projects; and
- d. roundtables with the participation of multiple stakeholders and multilevel governments from each region, aimed at sharing good practices, exchanging experiences, fostering networking opportunities, and promoting capacity transfer.

These alliances must include the participation of sectors representing the G20 working groups: research centres, businesses, governments, women, scientists and youth.

3. Promote local public policies for sustainable business management

The G20, in cooperation with the B20, is proposed to design training programmes in 2026 for relevant MSMEs stakeholders, to be held between 2027 and 2030. These

training programmes should include theoretical and practical training, with international and local renowned institutions and persons; instruction in green project management, accessible digital tools, and international funding; the transfer of technological and accounting skills; and the sharing of success stories that serve as examples for participants. It is also considered useful to create a network of alumni participants, enabling them to coordinate efforts to obtain international funding, technical cooperation, and share best practices.

The G20 needs to lead the sustainable industrialisation process in developing and low-income countries, focusing on the role of MSMEs from the perspective of international cooperation, public–private partnerships, and multilevel and multistakeholder alliances.

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