SMEs - the Real Engines for Growth

By James D. Wolfensohn
President
The World Bank Group
Chengdu, China, May 25, 2002

I am very pleased to be here with you today on the special occasion of the project launch for the China Project Development Facility (CPDF). The World Bank Group (WBG) has been very active in Sichuan ¨C an important province for us because of its interior location and relative poverty. CPDF is yet another illustration of our commitment to Sichuan. It is a new initiative the WBG is implementing, together with the Australian, Swiss and UK governments, to respond to the Chinese government’s Western development program. It will support the development of a vibrant private sector in the interior of China, with an initial focus on Sichuan. CPDF will build on IFC's strong presence in the province, and also on the international expertise and experience which the WBG SME Department has gained from supporting small business and private sector development in frontier markets.

CPDF is a comprehensive and integrated approach to three of China's most important economic challenges: the lagging development of Western China; a relative lack of strong, commercially-oriented financial institutions; and an SME sector that is struggling to take off. This approach lies at the heart of IFC's strategic priorities of focusing on underdeveloped markets, supporting local SME and financial sectors, and assisting with sustainable development.

I would like to take this opportunity to say a special thank you to the Sichuan and central governments, and our donors ¨C Australia, Switzerland and the United Kingdom. Without their strong support, this development initiative would not have been possible. Indeed, donor resources are key to enabling IFC, through CPDF, to reach private SMEs in difficult markets and sectors and more effectively support China's efforts to spur economic growth and reduce poverty in its poorest regions.

SMEs are part of the domestic private sector in China which account for about one third of the country's GDP, and their development is a priority in the country's economic reforms. Many of the job losses arising from the restructuring of state owned enterprises are being absorbed by the private sector. However, the private sector in the western provinces is characterized by a high degree of informality, which limits their ability to attract outside investments for further growth.

CPDF will provide a broad range of advisory services and know-how to locally-owned private sector SMEs, to formalize and improve their operations so that they can better meet challenges and opportunities emerging from China's WTO membership. It will also build the capacities of local financial institutions and business service providers to strengthen their practices and introduce new products for underserved
private SMEs. As appropriate and feasible, IFC and other international financial institutions look forward to supporting these initiatives with follow-on investments. Finally, CPDF will support sustainable development initiatives through corporate governance and environmental management programs, and collaborate closely with the authorities and other development partners to improve the investment climate, especially for SMEs.

The work has only begun and we look forward to working together with all of you. We are all determined to make this initiative a success.

Thank you.