



Economic Commission for Europe**Committee on Sustainable Energy****Twenty-ninth session**

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**Report of the Committee on Sustainable Energy
on its twenty-ninth session****Addendum****Guidelines and best practices for MSMEs to assure resiliency
and progress towards a circular economy in sustainable
resource management and critical raw material supply chain
solutions****I. Introduction**

1. Micro-, small and medium enterprises (MSMEs) are the backbone of the economy in the United Nations Economic Commission for Europe (ECE) region and have been hard hit by the COVID-19 economic crisis. This stress, in turn, has impacted the supply chains of many industries, especially those involved in supporting essential services required for society such as food, water, energy, and health care.
2. With almost half of the world continuing under lockdown for an extended period, the supply of certain critical raw materials (CRM) needed for an effective response to the COVID-19 pandemic has emerged as a concern. The Active Pharmaceutical Ingredients (APIs) and excipients of several drugs, including antibiotics such as azithromycin or amoxicillin, incorporate minerals such as chromium, cobalt, copper, magnesium, manganese, molybdenum, sodium, nickel and many others.
3. MSMEs can support the supply chains of critical raw materials required for many primary sectors. In the subsequent economic recovery, MSMEs can play an important role in building the resiliency of the raw material supply chains. The role of MSMEs is especially significant for the ECE region, which is one of the largest producers and consumers of raw materials. Progressing towards a circular economy will be one of the key features for opening up new opportunities.

**II. ECE's response to the impact of COVID-19 pandemic on
MSMEs**

4. As an immediate response to the pandemic, ECE is implementing the United Nations Development Account (UNDA) project "Global Initiative towards the post-Covid-19

resurgence of the MSME sector" jointly with other partners from the United Nations system. The overall goal of the project is to strengthen the capacity and resilience of MSMEs in developing countries and economies in transition to mitigate the economic and social impacts of the global COVID-19 crisis. As part of its contribution to the project, ECE has developed a report entitled "Guidelines and best practices for MSMEs to assure resiliency and progress towards a circular economy in sustainable resource management and critical raw material supply chain solutions".¹

5. The report examines the supply chains of CRMs in the global economy, the impact of supply chain disruption on MSMEs and proposed solutions and strategies that have been developed around the world to protect MSMEs from the effects of such crises and prepare these important companies for the future. It also provides an overview of the strategies and projects that have been developed to ensure the supply of CRMs to industry and to expand the supply of CRMs through development of additional resources and reserves to counteract monopolization of the raw materials market.

III. Leveraging MSMEs for CRM supply chain security

6. The COVID-19 pandemic has highlighted that countries that have previously covered their demand for CRMs by purchasing them on the world market will increasingly have to provide their own supply in the future. The key messages from the UNECE study are to empower MSMEs so that they can play a significant role in CRM supply security. Some of the near-term actions include:

(a) Networking more closely and joining international organizations in order to participate in international exchange of knowledge. Digitalization of enterprises is essential in this respect;

(b) Early training for staff to enable them to develop internal procedures to assess compliance risks and ensure compliance with legal requirements. Equally important is the company's knowledge of supply chains, international customs and national import regulations;

(c) In a post-COVID-19 world, stress testing in the supply chain will become a new standard. The distributed global business model, optimized for minimum cost, is no longer optimal. Tomorrow's model requires new priorities in optimization;

(d) The United Nations Framework Classification for Resources (UNFC) and its expanded version under development, the United Nations Resource Management System (UNRMS), can be used to source critical raw materials from conventional and unconventional sources, either in multi-metal or multi-mineral deposits.²

7. COVID-19 has highlighted the weaknesses of a globalized manufacturing system. To respond to these weaknesses, there is an urgent need to fundamentally rethink supply chains. The medium-term goals should be to identify alternative local or regional sources, to modify the supply chain as a key factor in business success, and to put human capital back as an essential factor in the success of an agile economy.

IV. MSME-focused new business models

8. Security of supplies of raw materials could suffer considerably if a second pandemic wave develops badly. This then speaks in favour of decentralising the supply of CRMs in the future and circumventing the "quasi-existing" or de facto monopolies that exist for a large proportion of CRMs. But this means, however that industrialized countries and emerging markets would need to restart exploring for new deposits of CRMs.

9. Countries can support MSMEs in developing alternate business models by optimizing policies and regulations. These changes could allow MSMEs to have better access to data,

¹ https://www.unece.org/fileadmin/DAM/energy/se/pdfs/geee/MSME_circular_economy_report.pdf

² <https://www.unece.org/energy/se/reserves.html>

information and knowledge, enhanced market access, and access to technology and finance. Entrepreneurial skill facilitation and training of employees are other key challenges that need to be addressed by companies and governments. This means that MSMEs should, at minimum:

- (a) Put in place internal procedures to assess compliance risks and ensure compliance with regulatory requirements, including, amongst others, requirements resulting from Customs Laws regarding classification, valuation, preferential origin certificates and anti-dumping and countervailing duties, intellectual property laws, and trade laws regarding export and import licenses, dual-use goods, and international sanctions;
- (b) Put in place desk procedures to verify information submitted to government authorities and commercial partners and review government decisions;
- (c) Establish a reliable system for record-keeping, ideally integrated or cross-referenced with the internal accounting system that allows full tracking of goods and shipments.

V. Towards an MSME Raw Material Alliance for the Circular Economy

10. The ECE study on “Guidelines and best practices for MSMEs to assure resiliency and progress towards a circular economy in sustainable resource management and critical raw material supply chain solutions” recommends establishing an international platform - MSME Raw Material Alliance for the Circular Economy (MRM-ACE). MRM-ACE could offer a platform to bring together governments, financial institutions and MSMEs to support raw material supply chains as well as:

- (a) Formal international co-ordination mechanisms for MSME policymaking;
- (b) Improved access to finance for MSMEs;
- (c) Promotion of skills development and an entrepreneurial culture;
- (d) Internationalisation of MSMEs; and
- (e) Facilitating MSMEs’ innovation and research and development (R&D) activities.

11. MRM-ACE could also offer an important platform for sharing knowledge on raw materials and the circular economy. The targeted and effective use of raw materials requires special knowledge and know-how that a start-up company or MSME may not have. The continually evolving circular economy with minimization of resource use and waste generation, pollution prevention and avoidance of carbon emissions could pose barriers to entry for an MSME. MRM-ACE could provide the essential link between the circular economy and MSMEs.

VI. Capacity-building

12. ECE organized an online training on “Guidelines and best practices for MSMEs to assure resiliency and progress towards a circular economy in sustainable resource management and critical raw material supply chain solutions” on 8 October 2020.³

13. Two ECE member States – Tajikistan and Ukraine – have been selected as pilot countries for customization of the Guidelines and Best Practices to national conditions. There are plans to customize the study for additional ECE member States pending availability of funds under the next phase of the UNDA project.

³ <http://www.unece.org/index.php?id=55077>

VII. Further information

14. This work was conducted under the Regional Advisory Services of the ECE Sustainable Energy Division, in close cooperation with the Division's activities on UNFC and UNRMS. Additional information is available on the ECE Sustainable Energy website under the Projects section of the Regional Advisory Services web pages.⁴

15. For further information on ECE's work on UNFC and UNRMS, visit the ECE Sustainable Resource Management website⁵ and/or contact: reserves.energy@un.org.

⁴ <http://www.unece.org/energy/welcome/areas-of-work/regional-advisory-services/projects/un-development-account-project.html>

⁵ <https://www.unece.org/energy/se/reserves.html>