



A joint ITC-WTO study

Aid for Trade and SME competitiveness

Connecting developing country SMEs to Global Value Chains

A presentation at the joint ITC-WTO workshop “Aid for Trade and SME Competitiveness”

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SMEs and the global economy

95% of enterprises across the world are SMEs
...accounting for 60-70% of private sector employment

- SMEs are strongly linked to employment, poverty reduction, women's economic empowerment and income distribution
- “formal sector” of SMEs account for 45% of employment, up to 35% of GDP in developing countries

Employment (formal) as a % of total employment

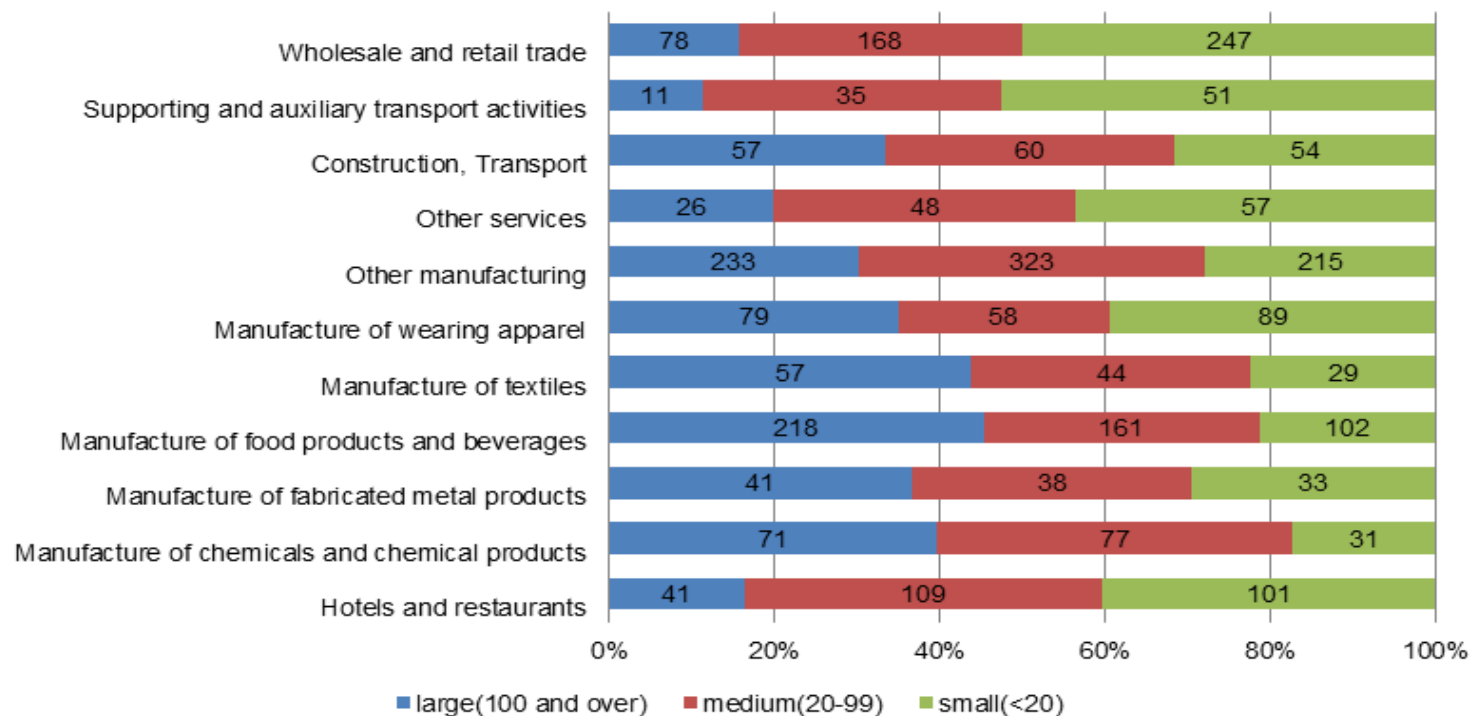
Region	SME 100	Region	SME 500
Sub-Saharan Africa	55%	Sub-Saharan Africa	85%
South Asia	56%	South Asia	88%

Failure and exit rates among exporting SMEs are high ...

- SMEs engaged in trade have higher productivity & employment growth
- BUT failure and exit rates for SMEs in trade operations are high.
- The export failure rate is 41% in a sample of 17 LDCs, with a high of 67% in The Gambia and a low of 29% in Bangladesh.
- Most enterprises in LDCs export for just one year. SMEs tend to export as a response to opportunistic circumstances rather than because of long-standing relationships with customers.
- Difficulty for SMEs to build long standing relationships as survival rates for intermittent SME exporters are considerably lower than for continuous exporters.

SMEs find it harder to export than large firms ... at least in manufacturing

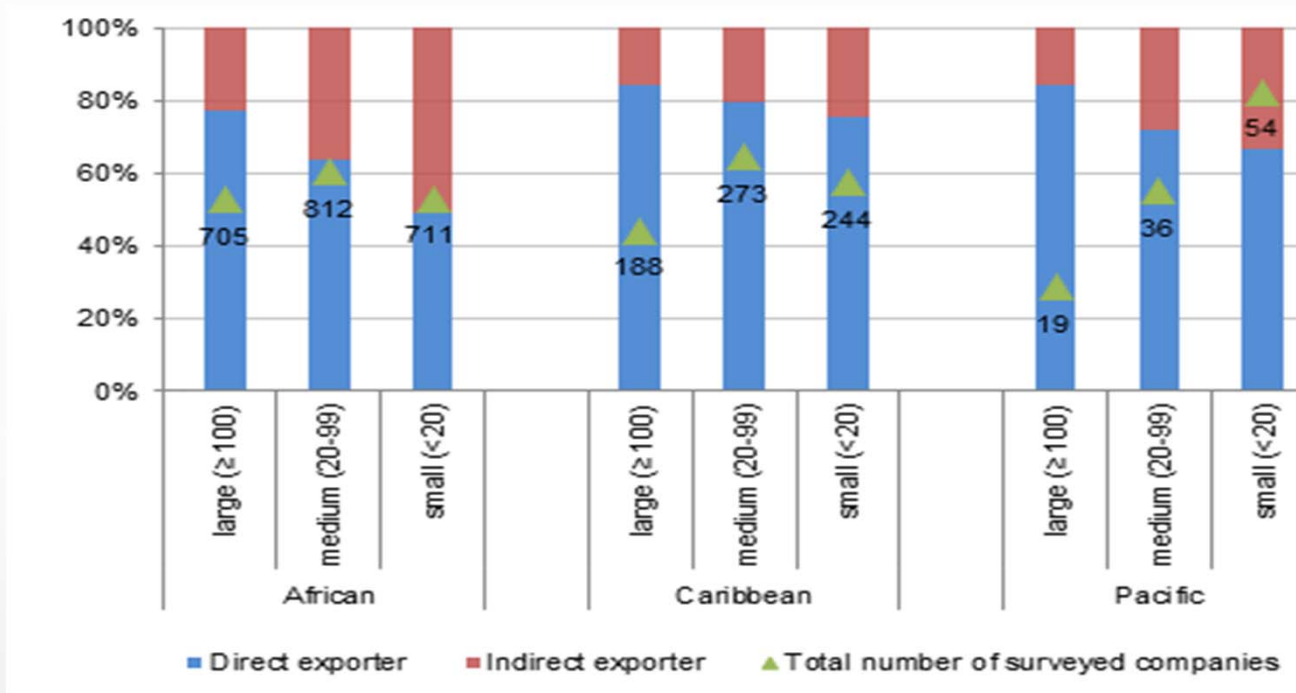
Sector breakdown of small-, medium- and large-sized companies from the African, Caribbean and Pacific (ACP) group of countries



Source: ITC, 2014

The first step towards internationalization may not take the form of direct exporting ...

Company size by export status



Source: ITC (2014) based on World Bank data

Policy Challenge

SMEs are disproportionately important to low-income economies, employment, and economic growth.



BUT



The SME sector is characterized by a high level of “churn”: of exit and re-entry. Survival rates among SME exporters are low.

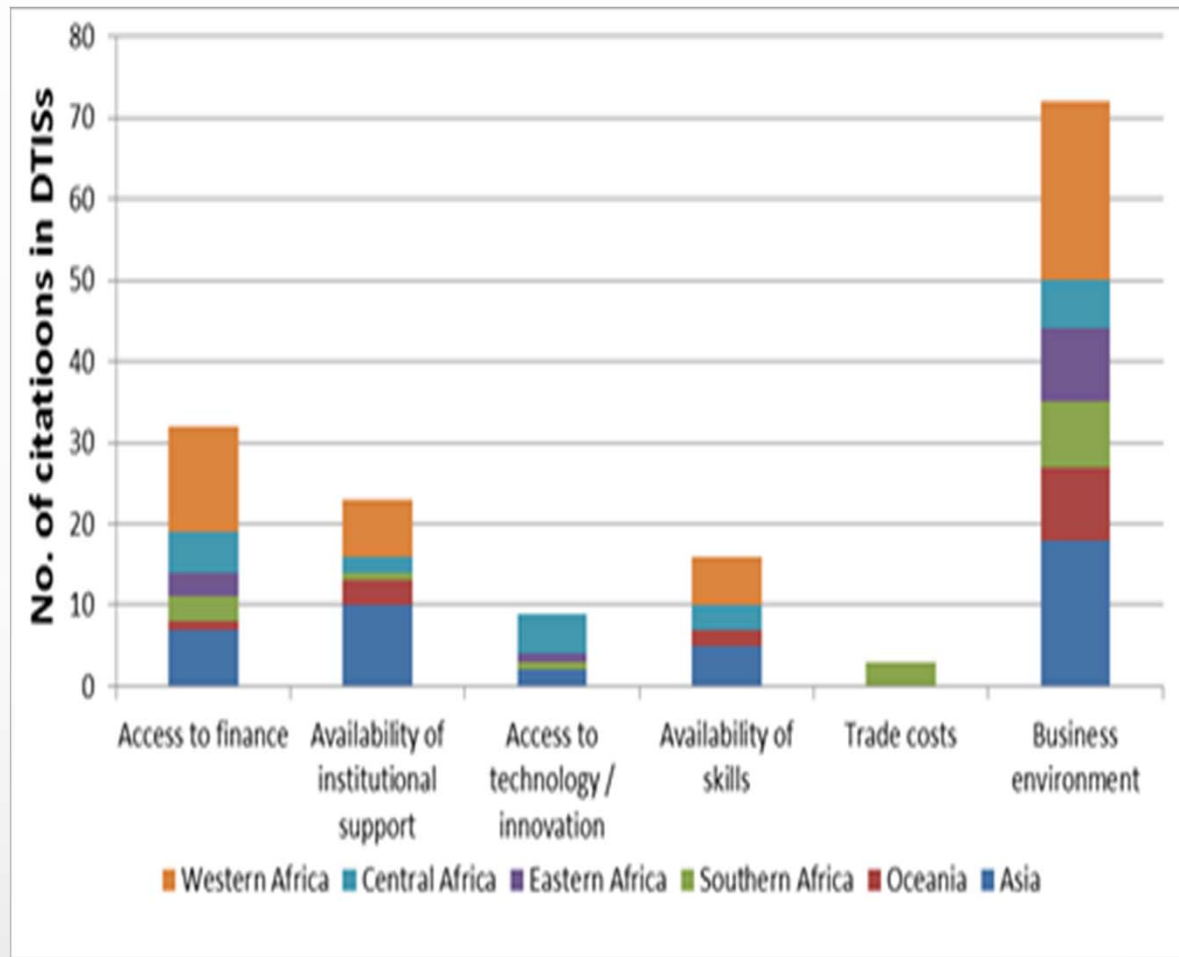
The challenge to policymakers is two-fold.

- How to encourage a higher fraction of SMEs to survive by avoiding that they are unduly and disproportionately affected by market failures and fixed costs?
- How to support high-growth SMEs and ensure that they are able to successfully transition from one state of development to another (e.g. from small to medium to large, or national to international)?

Bottlenecks to the Internationalization of SMEs

- Access to finance
- Business and regulatory environment (informality)
- Trade costs
- Difficulties to enter new markets (e.g. access to information, access to distribution channels)
- Difficulties defending their interests
- Access to technology and scope for innovation
- Availability of skills

Bottlenecks to SME Internationalization identified in LDCs



23
Enhanced
Integrated
Framework
Diagnostic
Trade
Integration
Studies

Aid for Trade Targeting SME Development

- Total AFT flows (2008 – 2012) = US\$ 223 billion
- AfT specific flows to SME development (2008 – 2012):
 - 34 donors
 - Over 3,400 projects
 - US\$5.2 billion
 - LDCs received on average 22% of this support over this period

Typical AfT projects

Area of thematic focus	Examples of projects and programmes
Business environment for SMEs	<ul style="list-style-type: none"> Competitiveness and Private Sector Development – Mozambique (World Bank IDA) Investment Climate Advisory Services – IFC
SME training: market research, business plans, vocational training, business education and mentoring, trade meetings	<ul style="list-style-type: none"> Micro Enterprise Development Programme in Nepal – multi-donor programme including Australia, Belgium, UNDP) Empretec and Business Linkages Programme – UNCTAD ITC's Enterprise Competitiveness Diagnostic Model
Regional training centres/strategies for SMEs	<ul style="list-style-type: none"> SME innovation centre – APEC and KOICA Compete Caribbean – Inter-American Development Bank, Caribbean Development Bank, Canada, UK
Exporter/importer pairing, promotion of joint ventures, development of business to business services	<ul style="list-style-type: none"> ITC's Certified Trade Advisers Programme (CTAP) is a certification programme that builds the capacities of Trade Support Institutions for designing and delivering export management development and direct assistance programmes to SMEs
Sustainability, fair trade, certification, quality standards	<ul style="list-style-type: none"> Portfolio of 164 debt and equity projects with focus on sustainable development – Belgian Investment Company for Developing Countries (BIO)
Funding for business start-up and working capital	<ul style="list-style-type: none"> Microenterprise programs – USAID Global SME finance facility – IFC Small and Medium Enterprises Program – African Development Bank
Promoting women-owned SMEs	<ul style="list-style-type: none"> Women in tourism empowerment programme – UNWTO

AfT: potential to innovate?

- Mixed approaches – commercial financing through investment vehicles underwritten by public financing/ grant component to finance capacity building
- “Additionality”: Market failure and Development Impact

(See new development finance approaches)

Rekindling interest in SMEs and development

- Financial crisis spurred renewed focus on SMEs as part of private sector development strategies
- G-20 SME finance challenge – financial inclusion
- Work of existing Development Finance Institutions
- South-South partners becoming engaged
- Base of pyramid business development models
- Corporate philanthropy

Availability of finance – rekindling interest in DFIs

- Some 55–68% of formal SMEs (14–18.6 million enterprises) in developing economies are either un-served or under-served in terms of their access to financing
- G-20 SME Finance Challenge: (Innovative approaches)
 - Equipment financing;
 - Lines of credit for procurement
 - Primary health clinics
 - Currency hedging
 - Company in a container (LED power)
- Renewed interest in Development Finance Institutions (multilateral /bilateral) and SME finance vehicles and SME financing vehicles
- Trade finance programmes of IFIs

Capturing the trade dimension

- Trade exposure of SMEs increasing (importers, exporters and suppliers to goods and services value chains)
- Evaluations tend to focus on institutions and programmes (median project \$110,000)
- Limited analysis of trade effects in evaluations
- Internationalization by default, not design
- Need to integrate trade metrics and indicators more systematically
- Scope for use of quantitative, research-based impact assessments (ITC's approach, DCED standard, OECD Management for Development Results)

Conclusions

- SME development is integral “inclusive, sustainable growth” and post-2015 Development Agenda.
- Economic crisis rekindled private sector development approached and interest in SMEs – both in developed and developing economies.
- Diverse, innovative area. New business approaches and new development approaches. Still a role for capacity building, alongside innovative market solutions. Focus on “market solutions”.
- Need to learn more about new approaches. SME development works with large number of small beneficiaries. Questions: How to scale up trade support to SMEs? How to avoid becoming too diffuse ? How to learn more about impact ?
- Trade dimension to SME development programmes not captured. Trade exposure of SMEs is growing; internationalization by “design or default” ?