JOINT ITC-WTO WORKSHOP ON

AID FOR TRADE AND SME COMPETITIVENESS

World Trade Organisation
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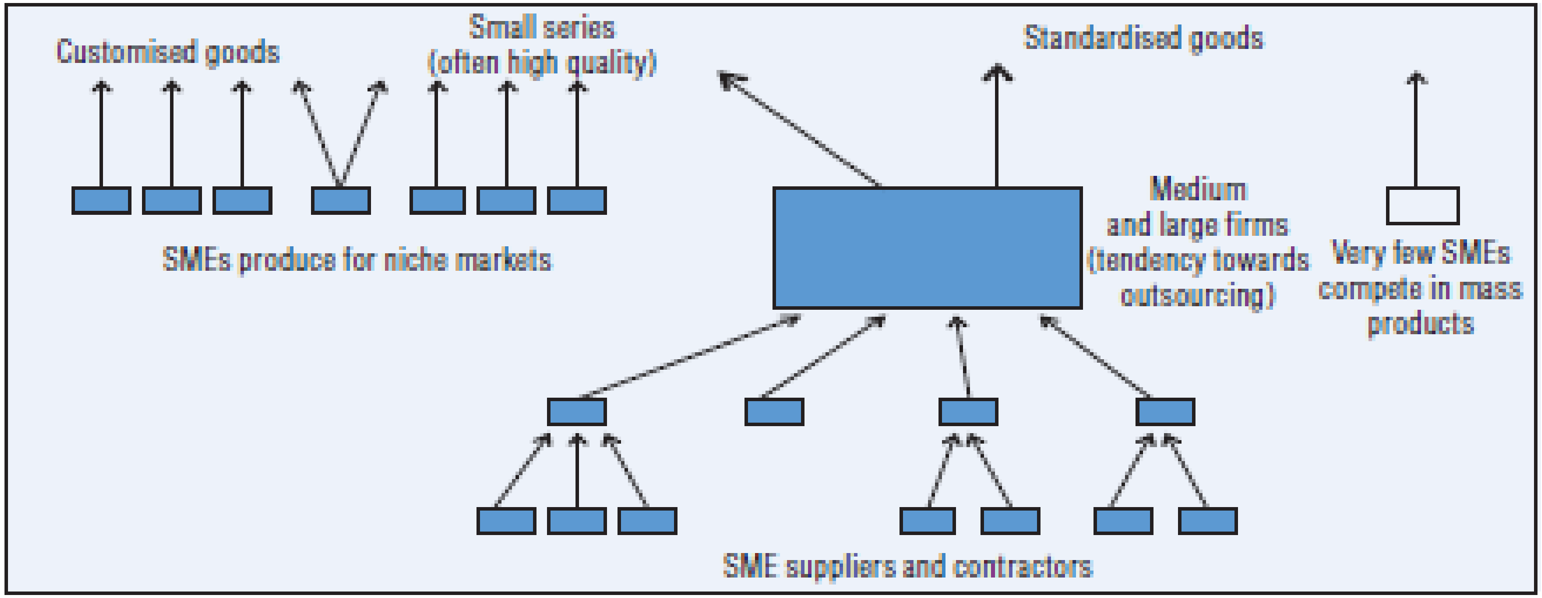
OECD
BETTER POLICIES FOR BETTER LIVES


Can SMEs participate more fully in international trade and Global Value Chains (GVCs)?
Sectors?
Channels?
Barriers?

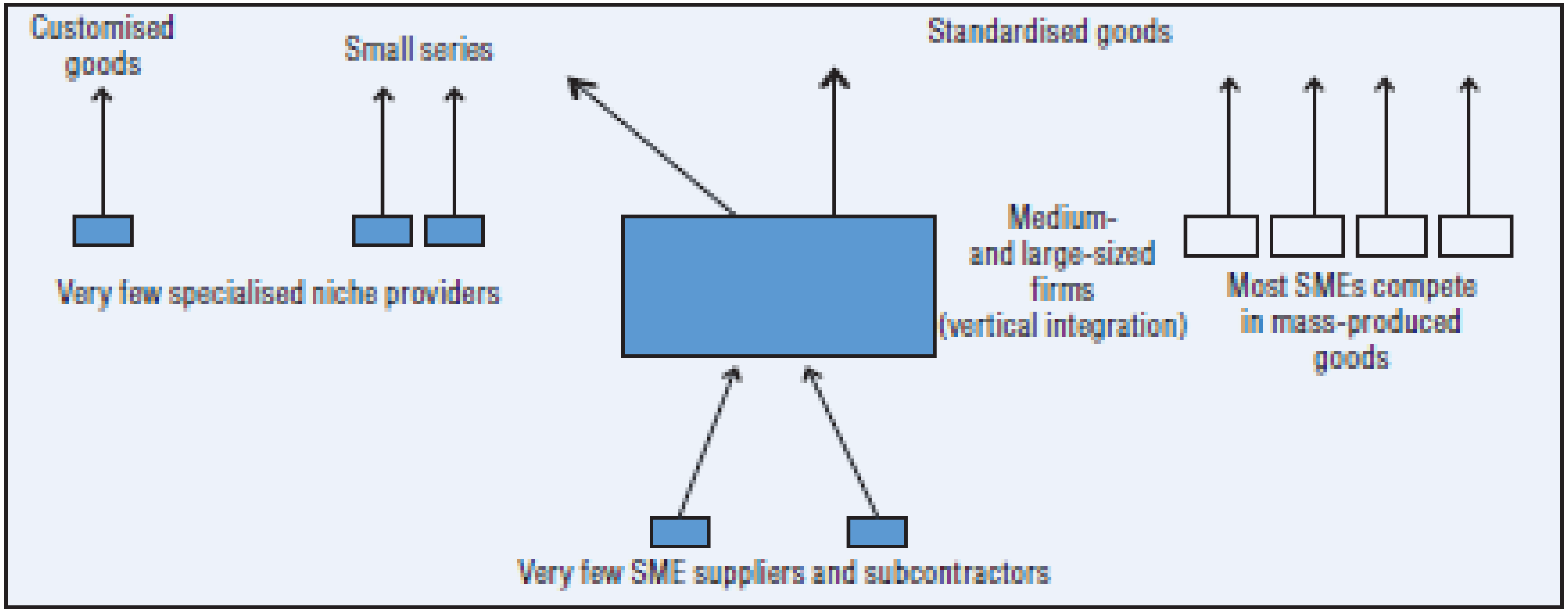
The role of SMEs in advanced economies

Diagram 2.1. **Typical industrial organisation in developed countries**



The role of SMEs in emerging countries

Diagram 2.2. **Typical industrial organisation in developing countries**



SMEs Internationalisation

It is becoming increasingly difficult, if not practically impossible, for independent small firms to thrive by taking refuge in their traditionally protected [domestic] markets (Hadiad 2004)

Technological change

Regulatory developments

SMEs

Globalization

↑ Turnover growth
↑ Employment
↑ Innovation

Channels for internationalisation?

("modes of supply")

Catalysers or constraints?

Role for policy?

Exporting SMEs Rely More on Global Markets

Low trade propensity

- Firm size has a positive relationship with the extensive margin of trade (i.e, the proportion of total firms exporting)

High trade intensity

- Firm size has the opposite, inverse relationship with the intensive margin of trade (i.e., the proportion of total sales destined to international markets)

Both effects are stronger for services SMEs

Persistence in Export Behaviour in Services

Key Results:

- **Once a services SMEs breaks into a foreign market, the likelihood that it will continue exporting (over a 10-year period) is high.**

- **Low rates of export mortality of services SMEs: firm size does not play a significant role in explaining the discontinuity of export activities on the part of firms.**

Policy Implications:

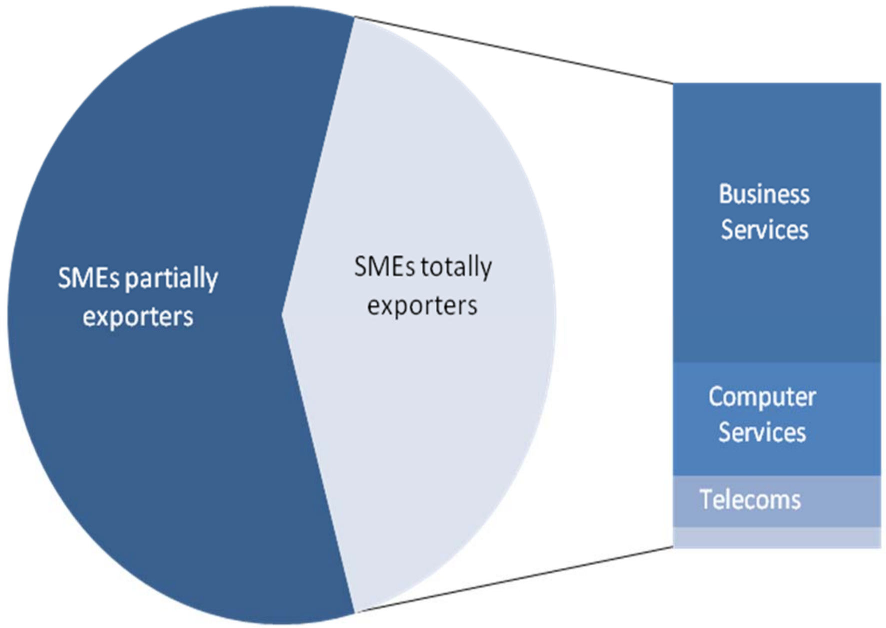
- **Address constraints to establishing the first export operation (paradoxically, some trade programmers require prior export experience).**

FAMEX Case (Tunisia): targeting export ‘start-ups’ of services SMEs

❑ **41% of registered services SMEs that export only sell to foreign markets: ‘born global’**

Impact Evaluation
(WB 2011a, b; CEPII 2012)

- Export growth rate is 38.9% higher for SMEs treated
- Disproportionately higher effects on services firms
- Disproportionately higher effects on first-time exporters



Source: National Statistics, Tunisian Agency of Production and Industry (API)

Differential trade channels & constraints

Export Channels

- Services SMEs display a particularly high reliance on indirect export channels.
- Geographical location in a large city matters more for services SMEs than distance to foreign market or to coast.

Firm and Industry

- Foreign ownership leads to more direct exporting; legal incorporation associated with higher export propensity in services
- ISO-9000 certification matters for manufacturing ,but not for services direct export capacity.

Home Barriers

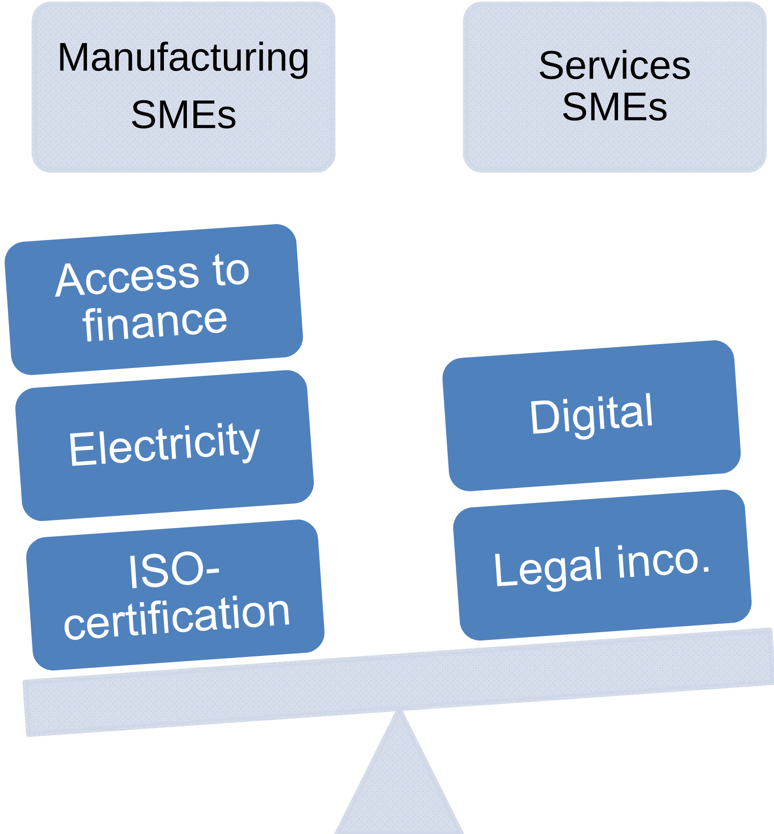
- Access to finance is a key constraint for SMEs export performance in manufacturing, but not in services.
- Electricity also constraints SMEs export activity in manufacturing, but not in services.
- Informality affects manufacturing

Finance not as critical for services SMEs

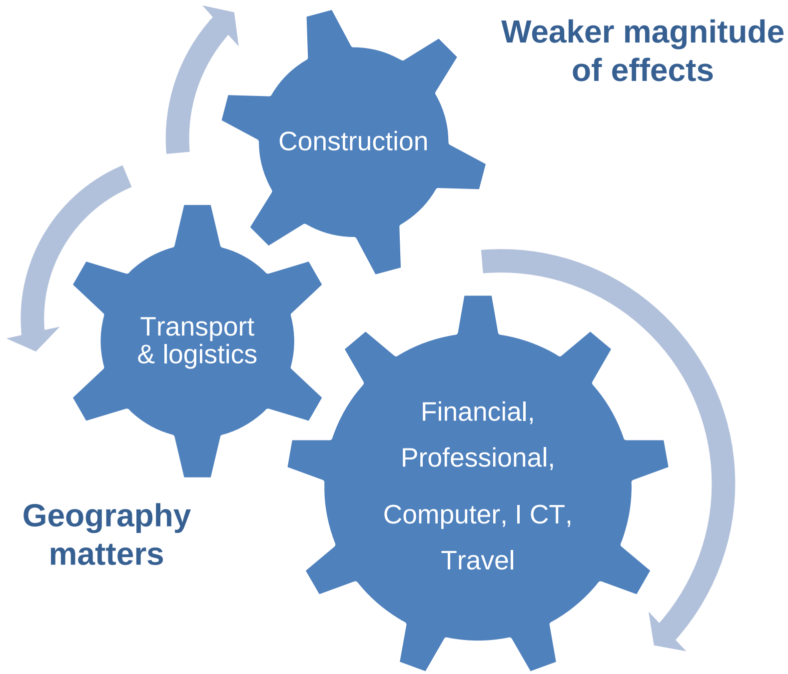
Financial instrument		Business	Distribution	Transport	Construction
Credit guarantee (insurance) schemes for international activity	Not useful	84%	61%	68%	65%
	Very useful	0%	16%	4%	4%
Tax incentives for international activity	Not useful	80%	73%	64%	65%
	Very useful	1%	0%	0%	0%
Subsidies and grants for international activity	Not useful	51%	47%	40%	23%
	Very useful	21%	10%	8%	4%
Loans for international activity	Not useful	83%	71%	60%	69%
	Very useful	1%	0%	0%	4%
Equity for international activity, e.g. venture capital	Not useful	85%	71%	60%	73%
	Very useful	2%	3%	0%	4%

Binding constraints to trade differ across sector and size of enterprise

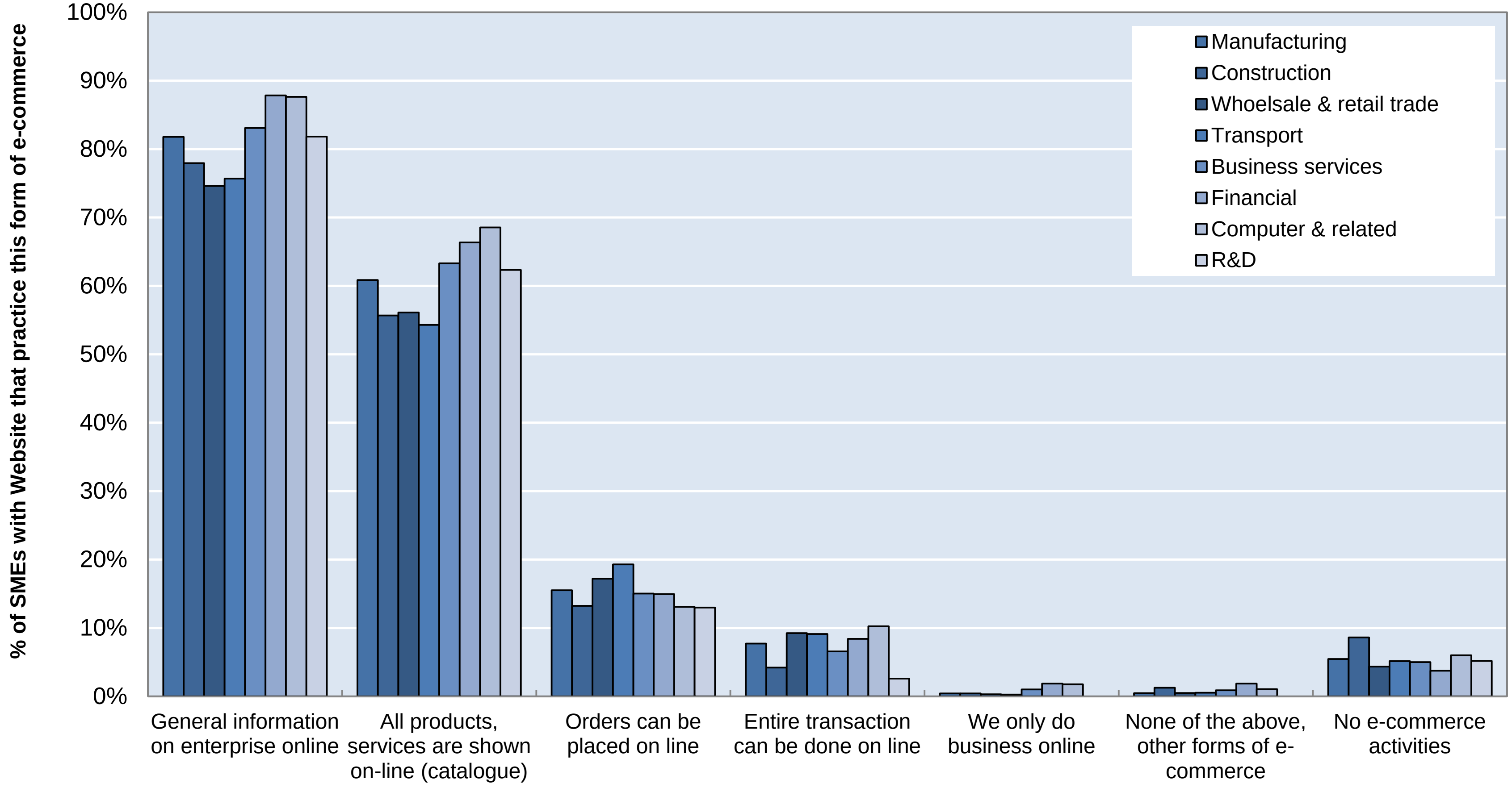
Manufacturing vs. Services



Heterogeneity across services



Very low use of e-commerce by all SMEs



Most Effective Instruments Perceived by SMEs: COORDINATION & INFORMATION FAILURES

Top 5 measures (percentage of SMEs found it “very useful)

- Business cooperation and networking (68%)
- Assistance with identifying potential foreign business partners (68%)
- Adequate information on market opportunities (68%)
- Trade missions (65%)
- Arranging one-to-one meetings with potential foreign business partners (63%)

Bottom 5 measures (percentage of SMEs found it “very useful)

- Auxiliary services (e.g., secretarial support) (20%)
- Assistance dealing with national technical standards (21%)
- Assistance dealing with Intellectual Property Rights (18%)
- Staff training (17%)
- Temporary office facilities in foreign markets (12%)

Source: Based on EU Survey to SMEs users of support measures for internationalisation, EIM & EU (2011)

AGGLOMERATION & NETWORK

Key Findings

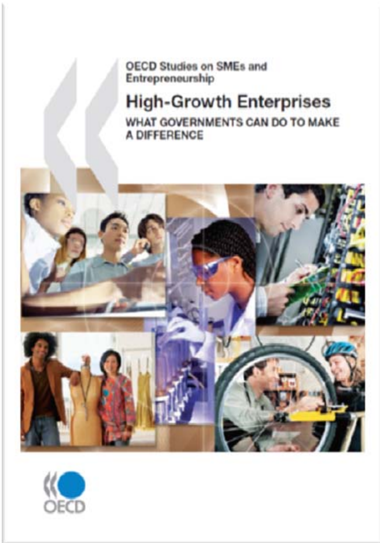
- **SMEs in services have a particularly high reliance on indirect channels (intermediaries, etc.) (World Enterprise Survey).**
- **Agglomeration is crucial: distance to other firms is more important than distance to foreign markets (Amadeus)**
- **Client followership is a key motivation driving internationalisation (Interviews French SMEs)**

Policy Implications

- **Fostering networks of business partners, intermediaries, diasporas, large multi-nationals**

Knowledge Products for SMEs & Entrepreneurship Know-how and Policy Formulation

Comprehensive international dataset for monitoring SMEs and entrepreneurs access to finance over time



Evidence-based studies on key challenges facing SMEs, with clear formulation of policy recommendation

In-depth country reviews of SME policies and issues, both at national and local levels, with peer review mechanism

New:
Benchmarks of policies for stronger SME performance, based on binding constraint analysis and impact evaluation

Work Program on SMEs in Trade

- ***Small and Medium-Sized Enterprises in Global Markets: A Differential Approach for Services?***

http://www.oecd-ilibrary.org/trade/small-and-medium-sized-enterprises-in-global-markets-a-differential-approach-for-services_5jz17jtfkmzt-en

- ***ADB–OECD Study on Enhancing Financial accessibility for SMEs: Lessons from Recent Crises***

http://www.oecd.org/cfe/smes/

- ***Upcoming work on SMEs and GVC participation on Developing Economies***

http://www.oecd.org/trade/tradedev/

Thank you for your attention

BETTER POLICIES FOR BETTER LIVES

Firm-level Analysis: Focus on Developing Economies

	Manufacturing		
Firm Type	**Direct Exports % Sales**	**Indirect Exports % Sales**	**Imports % Intermediates**
Micro	2.09%	1.55%	25.83%
Small	5.56%	2.87%	31.00%
Medium	16.41%	4.74%	37.94%
Large	33.28%	6.16%	44.44%

	Services	
Firm Type	**Direct Exports % Sales**	**Indirect Exports % Sales**
Micro	1.20%	1.03%
Small	2.25%	1.43%
Medium	4.73%	1.93%
Large	6.37%	2.27%

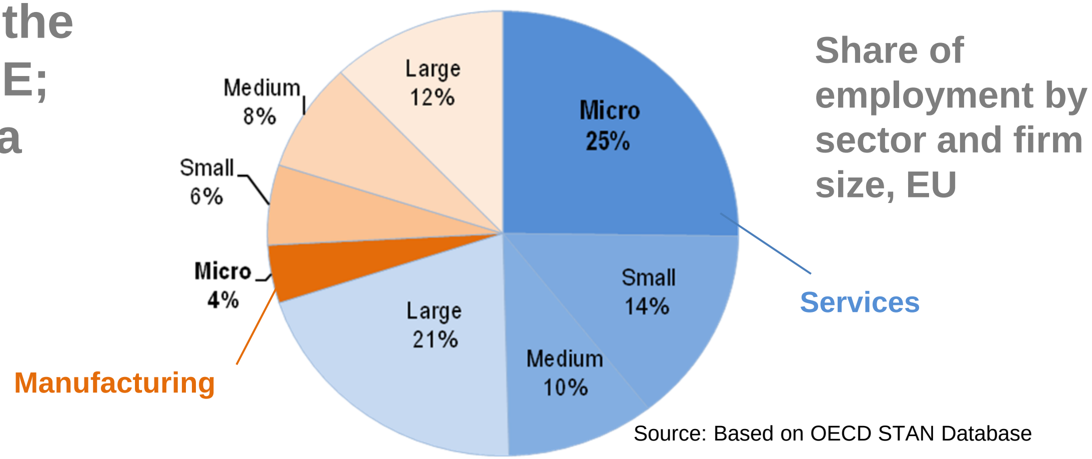
Source: World Enterprise Surveys

Salient Facts: Economic Opportunities

- SMEs in SERVICES SECTORS display HIGH-GROWTH POTENTIAL (in terms of output, Innovation and other 'HGSME' criteria) (OECD 2010)

- There are now FOUR TIMES AS MANY SERVICES SMEs ENGAGED IN GVCs THAN MANUFACTURING SMEs (Stephenson 2012; OECD 2007)

- ONE of every TWO JOBS in the EU is created by SERVICES SME; one in every four is created by a services micro-enterprise.



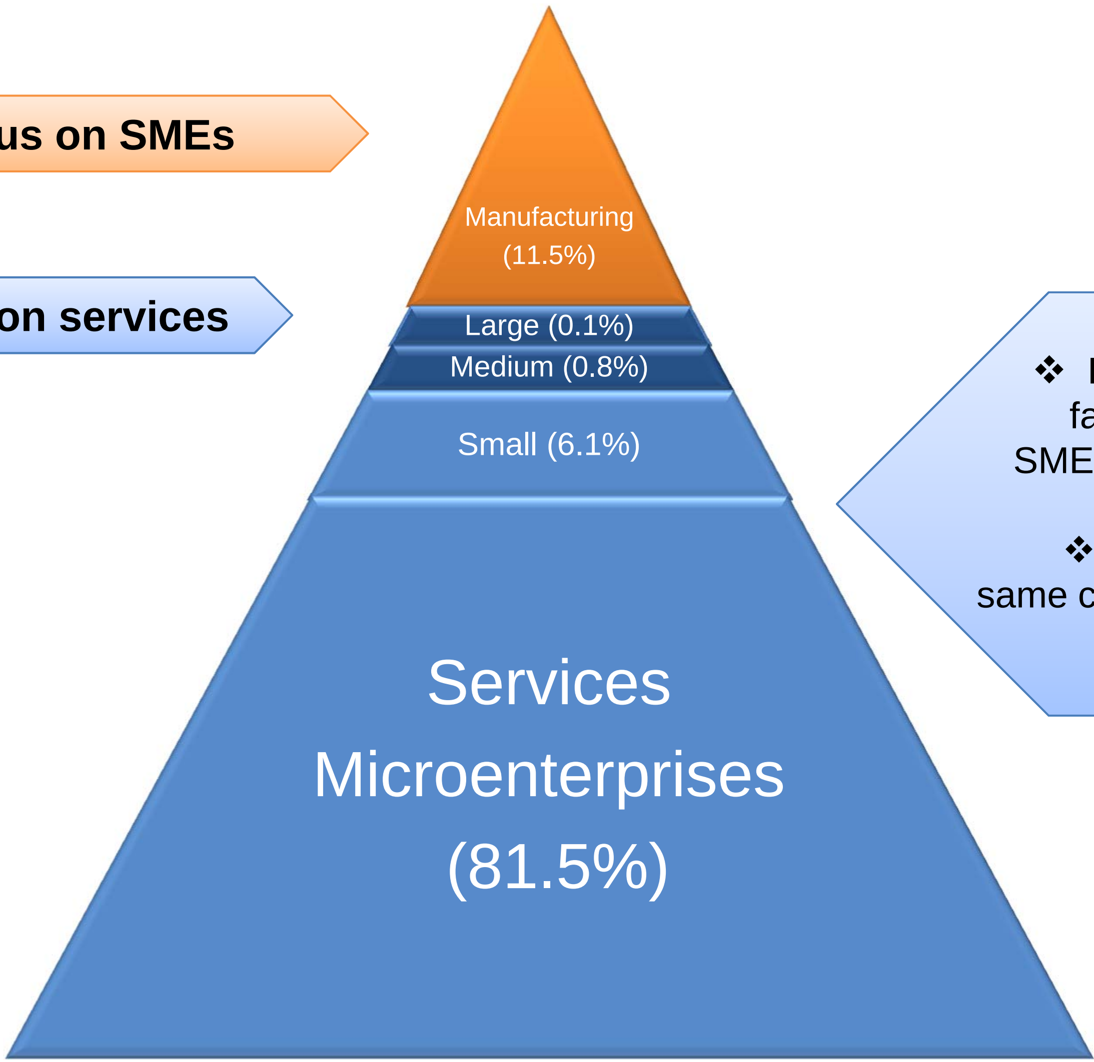
Source: Based on OECD STAN Database

PARADOX: Policy measures mostly focus on manufacturing, or large multinational enterprises (MNEs) in services.

Most SMEs are Services SMEs

Past focus on SMEs

Past focus on services



- ❖ Do small services providers face the same constraints as SMEs exporting manufacturing?
- ❖ Do services SMEs face the same constraints as larger firms in the same services market?

* 20 countries included:
Austria, Belgium, Czech R., Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Portugal, Italy, Netherlands, Norway, Poland, Slovak R., Slovenia, Spain, Sweden & UK

Source: Based on OECD STAN database, latest data available 2007*