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## JOINT ITC-WTO WORKSHOP ON AID FOR TRADE AND SME COMPETITIVENESS

### *Perspective of German Development Cooperation*

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1. Comments on the Joint WTO-ITC Communication
2. Aid for Trade in German Development Cooperation (GDC)
3. SME Development in GDC
4. Practical Examples of our Work – SME Development

## 1. WTO-ITC Communication - *Connecting developing country SMEs to GVCs*

### ■ Very good, relevant and stimulating report on SME development in an AfT context

- + Nice summary of the centrality of SMEs to sustainable and inclusive development – main bottlenecks and relevant growth opportunities (internationalization through integration into GVCs, new technologies as accelerator, SMEs as service providers)
- + Adopts a broad trade perspective, with a focus on GVC integration, but also indirect exports and the service sector (e.g. tourism)
- + Interesting discussion regarding the contribution made and issues faced by SMEs of different sizes (performance and development contribution may vary with firm size)
- + Places a strong emphasis on SME Finance and initiatives to “plug the funding gap”
- + Emphasizes the need for more robust results measurement frameworks
- + Highlights the challenge of achieving operational scale when providing support to SMEs

## WTO-ITC Communication - *Connecting developing country SMEs to GVCs*

### ■ Some suggestions for greater balance and improved structure

- Overall flow and focus of the report (AfT only at end) vs. title (internationalization > GVCs)
- Access to finance a critical bottleneck re. internationalization – but for access to finance to lead to demonstrable results, has to be accompanied by relevant technical assistance (lack of “bankable projects”)
- Other important elements and instruments to consider for internationalization: skills (TVET), FDI, regional integration
- Greater emphasis could also be placed on partnerships with the private sector (e.g. MNCs in a GVC context, but also with large local firms)
- Sections on innovative approaches would be desirable (could be an extension)
- Reach operational scale through a relevant combination of financial and technical assistance best? Approaches that help to “cluster” SMEs or strengthen their networks should also be included – not just for political influence, but for greater competitiveness!



## WTO-ITC Communication - *Connecting developing country SMEs to GVCs*

### ■ Some questions

- Table 6 – what specifically do the figures represent and how were they collected? 6.15 and 6.16 incompatible?
- Table 7 – we would be happy to point to some additional examples of relevance!
- Thematic AfT evaluation on the German side ongoing – should be available later this year and could be considered for further input.

## 2. German Development Cooperation – AfT and SME Competitiveness

### ■ Germany is the third largest donor for AfT (after Japan and the US)

- Min. EUR 220m commitment for trade-related assistance (TRA) p.a.
- Actual TRA and overall AfT spending are much higher, but fluctuate (fluctuations in loans for trade-related infrastructure and ODA eligibility)

### ■ AfT Strategy Paper (2011):

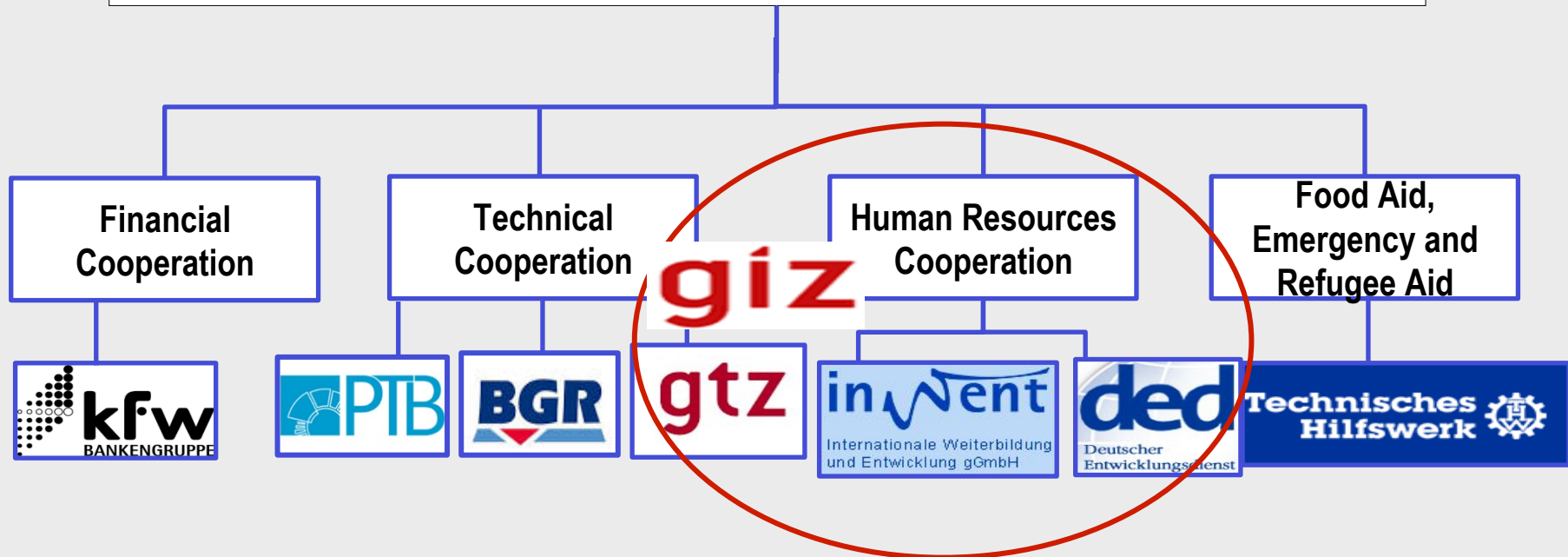
- Priority goal is to *“assist partner countries in successfully integrating into the global economic system and regional economic communities, diversifying their economies and exports and using trade in goods and services and FDI to more effectively reduce poverty in the context of sustainable development”*
- Recognition of trade as an important driver of development: tool for development, not by-product; multi-level approach across 5 AfT categories
- Special emphasis on: Regional economic integration; trade facilitation; quality infrastructure; adherence to social and environmental standards; and strengthening the results orientation of ongoing and planned initiatives

## ***German Development Cooperation – AfT and SME Competitiveness***

- **Within GDC, trade is not a separate priority area** - mainstreamed into bilateral priority areas: sustainable economic development, food security and agriculture, conservation and sustainable use of natural resources, good governance, etc.
- **Thematic AfT evaluation currently ongoing** - examines the German AfT portfolio and the overall degree to which mainstreaming has been achieved and the extent to which the AfT strategy has supported this – report should be available towards the end of the year.
- **SME development projects** often fall under the priority area sustainable economic development – with a focus on greater competitiveness and sustainable and inclusive growth, these **typically count as AfT.**



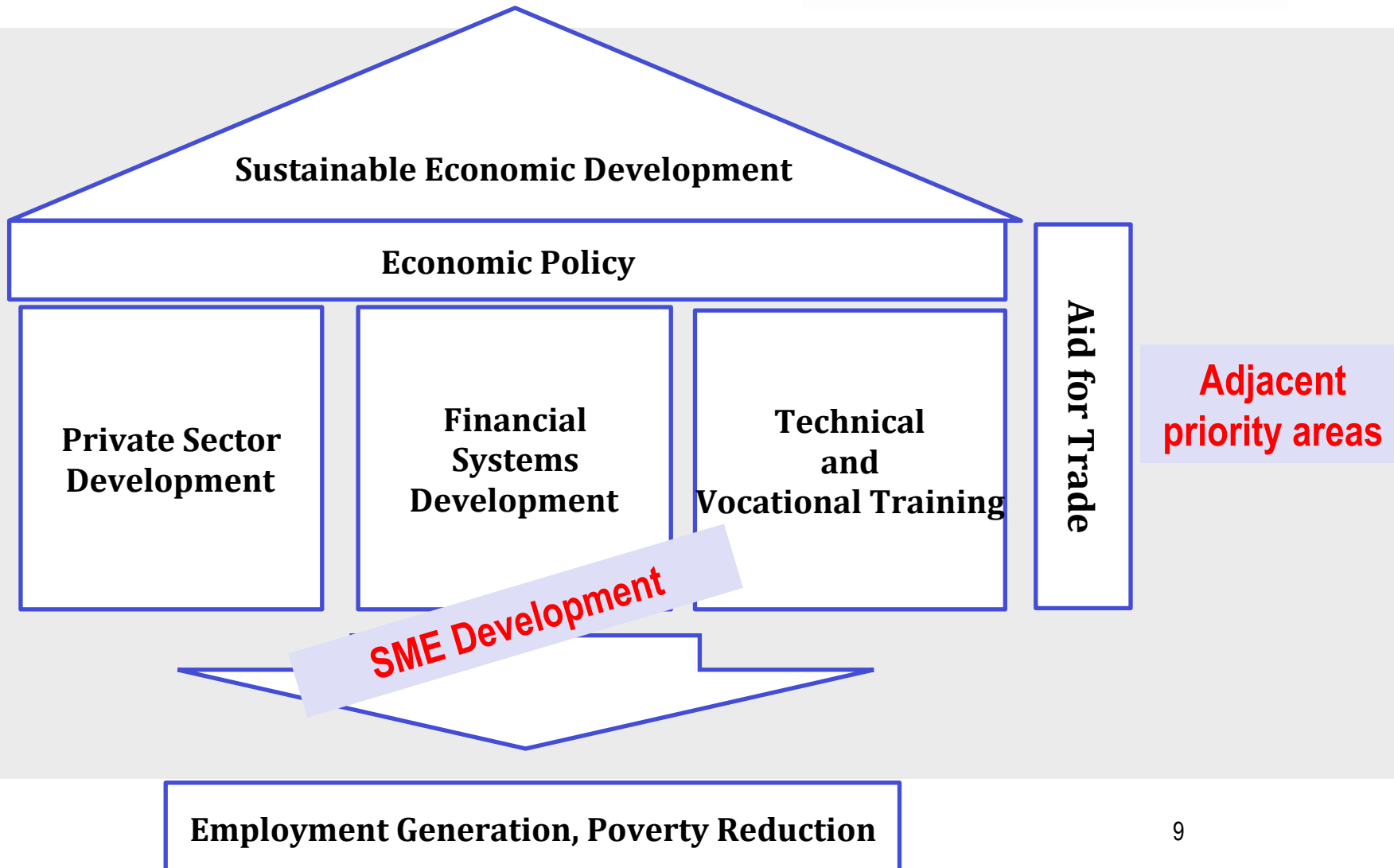
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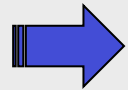
**Other German organisations for Development Cooperation:**

- Church organizations
- Foundations of political parties
- Non-government organizations (NGOs)



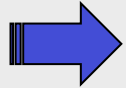


### 3. SME Development in GDC – *Integrated, multi-level Approach*



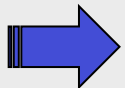
#### Micro-Level:

- Start-up Promotion
- Promotion of entrepreneurial skills and **innovative capabilities**
- Development of **Business Linkages and Clusters**



#### Meso-Level:

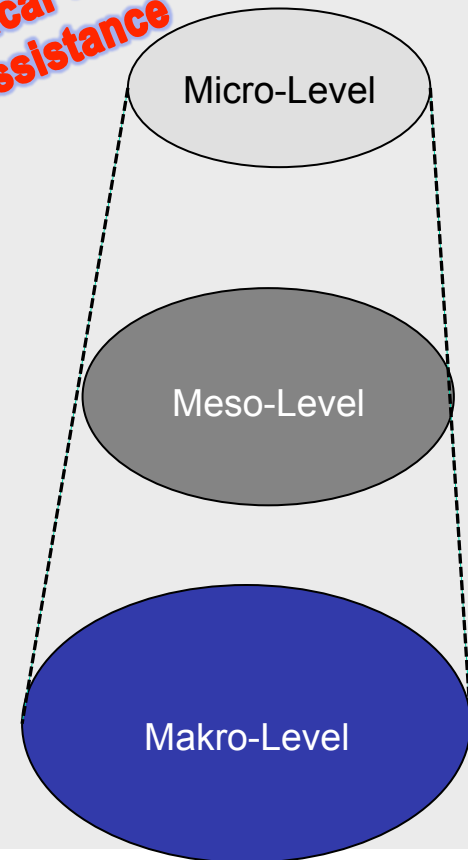
- Development of commercially viable **Business Development Services (BDS)**
- Development of **Business Linkages and Clusters** (incl. PPP)
- Support for **Chambers and Associations**
- Access to **SME Finance**



#### Macro-Level:

- Improving the **Business and Investment Climate** (incl. PPD)
- **SME Development Strategies**

**Technical + Financial Assistance**





## SME Development in GDC - *Key Principles and Goals*

### ■ Principles

- Focus on the Quality of Growth
- Subsidiarity and Demand Orientation
- Economic, social and environmental sustainability
- Systemic Approach and Impact Orientation

### ■ Goals

- Strengthen MSMEs so they can make a significant contribution to inclusive and sustainable development
- Generate jobs and income also for low-income and marginalized segments of society
- Support the development of innovative products and services, including to support green growth



## 4. SME Development in German Development Cooperation - *Project Examples*

- **Integrated, multi-level approach - Nepal**
- **VC development across various sectors – Turkey, Kenya**
- **GVC integration through direct cooperation with the private sector and addressing the informal sector – Latin America**
- **SME Finance – Southeast Europe, global**

## SME and Trade Promotion - *Examples*

### Nepal

#### Trade Promotion Programme

2012 to 2015

GIZ

**Objective:** The Government of Nepal and the private sector are better able to implement the Nepal Trade Integration Strategy (NTIS) designed to foster Nepal's inclusion in regional and international markets.

#### Activities

- Capacity Building of the National Implementation Unit to roll out the Nepal Trade Integration Strategy (NTIS) – M&E, resource mobilization and organizational development
- Coordination between the public and private sectors in trade-related matters – fostering consultative mechanisms on legislative changes, TRIPs, etc.
- Strengthening the private sector and business service suppliers in specific value chains and networking activities – silver jewelry, honey, aromatic/medicinal plants

#### Intended Impact

- Improvement of political, legal and regulatory framework, esp. for SMEs
- Improved access to trade-facilitating services for SME
- Increased international competitiveness of Nepalese SME

## SME and Trade Promotion - *Examples*

### Turkey

#### Private Sector Promotion in Anatolia

2003 to 2010

GIZ

**Objective:** SMEs in the central and eastern parts of Turkey increased their competitive position and commercial vitality and adjust to increased competition from the European market. Regional imbalances are being steadily reduced.

#### Activities

- Support of SMEs in textile, food and metal-working industries through advisory services with regard to quality standards, export opportunities, product development and commercial management
- Strengthening of trade associations and export unions on location marketing and through exchange with similar institutions at the EU level
- Training experts in the regional branches of the Small and Medium Industry Development Organization

#### Impact

- Metal-working companies and suppliers undertake joint location marketing; productivity within VC enhanced and production geared towards international quality standards: improved product quality for steel, gold jewelry, red peppers
- Access to international markets for textiles expanded; productivity and quality increased through support by the Istanbul clothing association.

## SME and Trade Promotion - *Examples*

### Kenya

#### Private Sector Development in Agriculture

2003 to 2013

GIZ

**Objective:** SME agricultural producers and processing enterprises utilize their full production and market potential, while managing their natural resource base in a sustainable manner.

#### Activities

- Improvement of the policy framework for agriculture and agribusiness through a strengthened Agricultural Sector Coordination Unit
- Business-oriented value chain and partnership development (potatoes, mangoes, passion fruit, beef, Omena fish, etc.)
- Promotion of resource-friendly technologies

#### Impact

- Increased yields and productivity, decreased costs for production and transport in selected value chains, more than 10,000 new jobs created
- Beef butchers produce the meat according to national quality/hygiene standards
- More than one million energy-saving stoves and 330 biogas plants installed, which led to reduced deforestation and soil erosion (5,000 jobs created, ...)
- Reached > 50,000 households – ↑ incomes as result of agricultural activities

## Cooperation with the Private Sector - *Example*

**Brazil, Chile,  
Uruguay,  
Peru**

**Integrating  
informal metal  
collectors into the  
steel value chain**

2010 – 2013

GIZ DeveloPPP.de

**Private Project Partner:** Gerdau (leading global steel producer)

**Objective:** Strategic alliance to strengthen the organization and management of informal sector actors in the steel value chain in selected Latin American countries.

### **Components**

- Professionalization of informal sector actors through organization and training
- Strengthening of NGO intermediates; NGO network for knowledge transfer
- Development of a monitoring system for the whole value chain (CSR Scorecard)
- Influence relevant policies in the participating countries through alliances with local municipalities – scale-up the approach

### **Impact:**

- 3000 waste pickers trained, 1500 organized in cooperatives and companies
- Successful and measurable integration of the informal sector into the value chain through tracking of comprehensive KPIs
- Gerdau benefits from more inclusive supply chain management and reliable supply of better quality scrap material
- Gerdau to replicate the project at other company locations



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## SME Finance - *Example*

### Southeast Europe

### European Fund for Southeast Europe (EFSE)

Since 2005

KfW

**Objective:** Access to financial services for micro and small enterprises and low-income private households to improve housing conditions

#### Information

- Fund consisting of 34% public capital, 66% private capital
- Total of 962 million € (December 2013)
- EFSE operates through financial intermediaries in the region of Southeast Europe (commercial banks, microfinance banks, microcredit organizations and non-bank financial institutions such as leasing companies)
- Development Facility endowed with grants to enable technical assistance, consulting and training measures to strengthen financial institutions in the region

#### Impact

- Since 2005 - 528,109 SME and housing loans facilitated, total of 3.6 billion €
- 82% of the EFSE sub-borrowers note a very significant or significant turnover increase

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## SME Finance Innovation - *Example*

**Global**

**SME Finance  
Innovation  
Award**

Since 2014

DEG, FMO,  
Proparco

**Objective:** Honor financial institutions for innovative products, services and distribution channels to serve SMEs: demonstrate that offering sustainable products and services can be good business for FIs and strengthen the local economy.

### Specifics

- Great opportunity for financial institutions to disseminate their SME initiatives and related innovations in developing countries
- Set up by three European Development Finance Institutions – German DEG, Dutch FMO and French Proparco
- Prize will be awarded every 2 years

### 2014 Awards

- Banco BAC San José provides an approach to speed up credit approvals and reduce the costs involved by using modern software and data processing.
- Medical Credit Fund offers private healthcare facilities in Kenya, Tanzania, Ghana and Nigeria access to financial services and technical support.
- IFMR Capital, India, developed various products enabling risk transfer from small finance institutions offering loans to SMEs to strong investors.

## Relevant links for further information

- **Private sector promotion - overview:**  
[http://www.bmz.de/en/what we do/issues/wirtschaft/nachhaltige wirtschaftsentwicklung/privatwirtschaftsfoerderung/index.html](http://www.bmz.de/en/what_we_do/issues/wirtschaft/nachhaltige_wirtschaftsentwicklung/privatwirtschaftsfoerderung/index.html)
- **Sector Strategy for Private Sector Development:**  
[http://www.bmz.de/en/publications/type of publication/strategies/Strategiepapier338\\_09\\_2013.pdf](http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier338_09_2013.pdf)
- **The Private Sector as a Partner of Development Policy – key issues paper:**  
[http://www.bmz.de/en/publications/type of publication/strategies/Strategiepapier304\\_03\\_2011.pdf](http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier304_03_2011.pdf)
- **Development Partnerships with the Private Sector:** <http://www.developpp.de/en>
- **Aid for Trade in German Development Policy:**  
[http://www.bmz.de/en/publications/type of publication/strategies/Strategiepapier308\\_07\\_2011.pdf](http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier308_07_2011.pdf)
- **Financial Systems Development and SME Finance:**  
[http://www.bmz.de/en/what we do/issues/wirtschaft/nachhaltige wirtschaftsentwicklung/finanzsystementwicklung/index.html](http://www.bmz.de/en/what_we_do/issues/wirtschaft/nachhaltige_wirtschaftsentwicklung/finanzsystementwicklung/index.html)
- **Inclusive business models – options for support through PSD programmes:**  
<http://www.enterprise-development.org/page/download?id=2211>



## Relevant links for further information

- **Financial Systems Development and SME Finance:**  
[http://www.bmz.de/en/what\\_we\\_do/issues/wirtschaft/nachhaltige\\_wirtschaftsentwicklung/finanzsystementwicklung/index.html](http://www.bmz.de/en/what_we_do/issues/wirtschaft/nachhaltige_wirtschaftsentwicklung/finanzsystementwicklung/index.html)
- **Consultative Group to assist the Poor (CGAP) – financial inclusion:** <http://www.cgap.org/publications>
- **Global Partnership for Financial Inclusion (GPFI):** <http://gpfi.org/publications>
- **SME Finance Forum:** <http://smefinanceforum.org/>
- **Alliance for Financial Inclusion (AFI):** <http://www.afi-global.org/library>

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# Thank you for your attention!

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