SME COMPETITIVENESS OUTLOOK

Small Businesses in Fragility: from Survival to Growth

Date: 07 December 2023
Our world is becoming more fragile

Quadruple shock of COVID, conflict, climate change and higher cost of living pushing more countries into fragility

Of the 35 countries classified as fragile or conflict affected in 2006, only 15 have managed to break out of fragility, and 19 have fallen into it.
Fragility threatens livelihoods now...

Countries affected by fragility are struggling to achieve most of the SDGs.
... and in the future

Conflict is **dragging out over time**, involving **more countries** and with **more spillover effects**

![Conflict duration (average number of years)](chart.png)
Why small businesses matter in fragility?

In fragile settings, MSMEs comprise **90% of all businesses**, with a stronger presence of smaller firms.

If they **survive**, they can provide some of the jobs, goods and services needed to meet basic societal needs, helping **sustain the livelihoods** of millions.

If they are set on a **growth** trajectory, they are more likely to take off once peace takes hold, helping **sustain long-term stability**.
Most firms are hurt by fragility...

Business Phase:

- **Conceptualization**
  - Challenge: Misallocation of entrepreneurial talent
  - Opportunity: Large pool of latent entrepreneurs

- **Start-up**
  - Challenge: More firms created out of necessity Lower formalization
  - Opportunity: Higher creation rates, though informal

- **Growth**
  - Challenge: Constrained or regressive innovation Stunted growth
  - Opportunity: Benefits for connected or protected firms

- **Internationalization**
  - Challenge: Lower exports Brain drain and firm flight
  - Opportunity: Diaspora remittances and investment

- **Exit**
  - Challenge: Higher failure rates
  - Opportunity: Serial entrepreneurship
...but impacts vary
Some businesses suffer more

ITC Fragility Exposure Index aggregates firm-level scores and shows how firms are differently exposed to the same overarching state of fragility.
Business location matters

Firms’ perception of fragility in regions with:

- **Political violence**
  - Low: 31%
  - High: 34%

- **Income**
  - Low: 38%
  - High: 29%

- **Inequality**
  - Low: 29%
  - High: 35%

Share of firms **experiencing high fragility**
Firm characteristics matters

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Type</th>
<th>Share of Firms Experiencing High Fragility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Large MSMEs</td>
<td>34%</td>
</tr>
<tr>
<td>Formality</td>
<td>Formal</td>
<td>41%</td>
</tr>
<tr>
<td>Gender</td>
<td>Men-owned</td>
<td>36%</td>
</tr>
<tr>
<td>Age</td>
<td>Non-youth-led</td>
<td>41%</td>
</tr>
</tbody>
</table>

Share of firms experiencing high fragility
And actions matter, too

What firms do, not just where and what they are, influence their experience of fragility
Firms must compete, connect and change

Improve financial management

- Keep full records
  - 21% no
  - 42% yes

  Share of firms with employee growth (%)

Build connections

- Engaged with business support organizations
  - 14% no
  - 35% yes

  Share of firms with employee growth (%)

Identify and retain skilled staff

- Established hiring process
  - 31% weak
  - 41% strong

  Share of firms with employee growth (%)
But there are limits to what firms can do

As the environment becomes more fragile, the relationship between competitiveness and fragility disappears.

Applicable to compete, connect and change

Applicable to compete, ONLY
Firms are largely concerned about survival, not growth

SME Competitiveness Outlook 2023
An effective strategy must be holistic
Thank you!

Report available at:
https://intracen.org/resources/publications/sme-competitiveness-outlook

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