



'ONE ITC'

INTERVENTION LOGIC FOR SME
INTERNATIONAL COMPETITIVENESS

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"One ITC" Intervention Logic for SME International Competitiveness
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Introduction

The International Trade Centre (ITC), the joint agency of the United Nations and the WTO, is the only multilateral agency fully dedicated to supporting the internationalisation of small and medium-sized enterprises (SMEs). Its joint mandate combines a focus on expanding trade opportunities with the aim of fostering sustainable development. Supporting the international competitiveness of SMEs in developing countries, post-conflict states and economies in transition is the main determinant in all its technical interventions.

International trade has changed significantly in recent decades. The nature of the way economies trade has transformed as a result of technological innovations and a fall in the cost of transportation, and there has been an exponential growth in South-South trade and investments. ITC continues to adapt to the changing needs of clients in the dynamic international business environment. This has been shaped by the technological revolution in information and communication technology (ICT), innovation in transport and logistics, and by multilateral and regional trade negotiations. Trade and investment have become major determinants of a country's economic prosperity in this new environment characterised by value chains and the important role of the private sector in supporting global growth. SMEs are becoming increasingly important actors, and transformations in the way businesses trade have created new business opportunities for SMEs to connect with global and regional markets.

ITC's focus on SMEs

SMEs play an important role in every economy. In Africa, for example, over 90% of firms are SMEs, and in low income countries, the share of employment created by SMEs is close to 80%. SMEs will play a key role in creating the majority of the estimated 500 million new jobs needed by 2030. SMEs are increasingly becoming outward looking and are seeking to exploit new and innovative ways to generate business. Many of the market opportunities and structures remain dominated by the value chains of leading firms. There are growing opportunities for SMEs to enter and move up these value chains with the right tools and business environment. As international markets evolve and tariffs become less of a constraint to trade, there is a growing stream of non-tariff measures which include quality standards, private standards, and trade facilitation issues that can impede the ability of SMEs to integrate successfully and sustainably into international markets.

Technological innovation provides new opportunities for SMEs to connect to buyers and suppliers much more directly and effectively. The range of e-solutions and e-commerce platforms allow them to tap into much larger international markets and source inputs from a broader range of suppliers. Geography is no longer the overriding constraint in the ability of SMEs to trade.

Aid for Trade services

In response to these opportunities in emerging and mature markets, and the associated market access challenges faced by SMEs, ITC focuses the delivery of its aid for trade on enhancing SME international competitiveness, addressing trade barriers, and supporting SMEs to exploit new markets

and related distribution channels. ITC provides a suite of technical assistance services and solutions either directly to enterprises or through trade and investment support institutions (TSIs), which act as multipliers in the field. ITC is strongly committed to women's economic empowerment and youth employment. Since 2014, all of ITC's interventions have integrated the gender, youth and sustainability dimensions of trade.

The international competitiveness of enterprises is a complex, multi-dimensional concept comprising three sets of factors.

First, enterprise competitiveness is determined by factors internal to the enterprise, which includes total factor productivity and the ability to constantly innovate. It involves the capability of an enterprise to maintain and evolve its competitiveness by successfully linking up to markets and value chains and to innovate through new knowledge, skills and technologies.

Secondly, the international competitiveness of enterprises is impacted by the efficiency of the policy and regulatory practices that shape the business environment in which they operate, and the related presence of efficient business service providers.

Thirdly, it is influenced by the ability of TSIs to provide a suite of services which is practical, in line with market needs, and immediately usable by enterprises.

Integrated Solutions for SME Internationalisation



ITC offers integrated, modular and customized solutions that are designed to improve the international competitiveness of SMEs and are based on market needs. ITC's interventions in a country are demand-driven and supported by detailed '**needs assessments**' to provide solutions for long lasting transformational impact. In tandem, these interventions seek to contribute to the creation of a business environment shaped by policy and regulatory practices conducive to SME internationalisation which help to build the capacity of TSIs to act as multipliers in the field.

ITC's interventions follow one or a combination of the following three courses:

- 1 A vertical approach working through the whole value chain of a selected sector(s).
- 2 A horizontal approach working on identified needs of SMEs, including business service providers, and policy and regulatory practices in so far as they are impacted by TSIs.
- 3 An integrated approach of implementing the entire intervention logic (particularly in post-conflict countries).

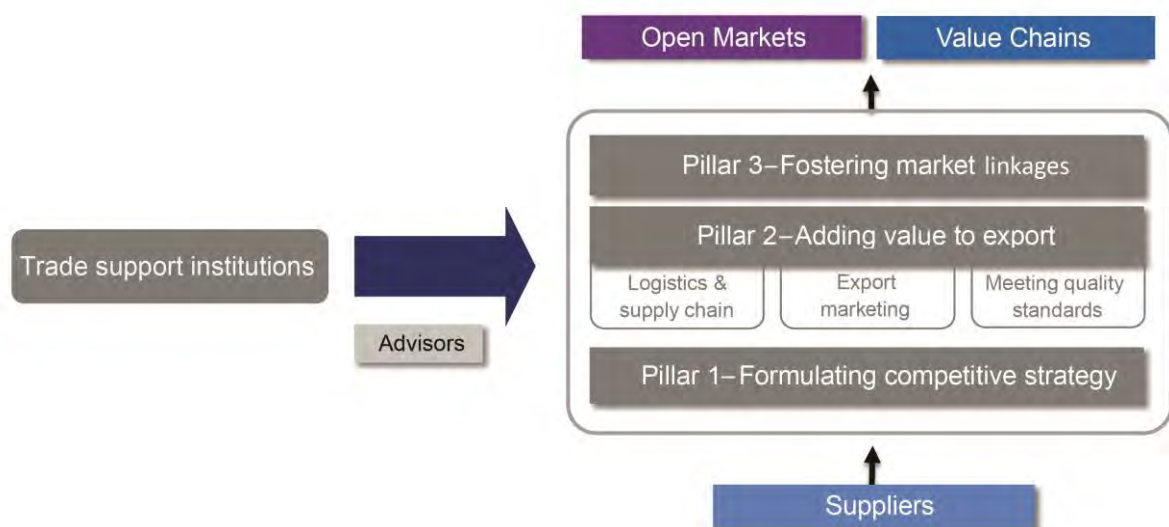
Strengthening ability of SMEs to maximise international competitiveness

Three main pillars define enterprise competitiveness along the whole export value chain:

Pillar 1 Formulating competitive strategies;

Pillar 2 Adding value to trade;

Pillar 3 Fostering market linkages.



The entry point for ITC's technical assistance in this area is based on identifying SMEs with export potential, determining the current market needs of these SMEs, and ensuring alignment between these SMEs and the assistance to be provided. The process begins with a sound

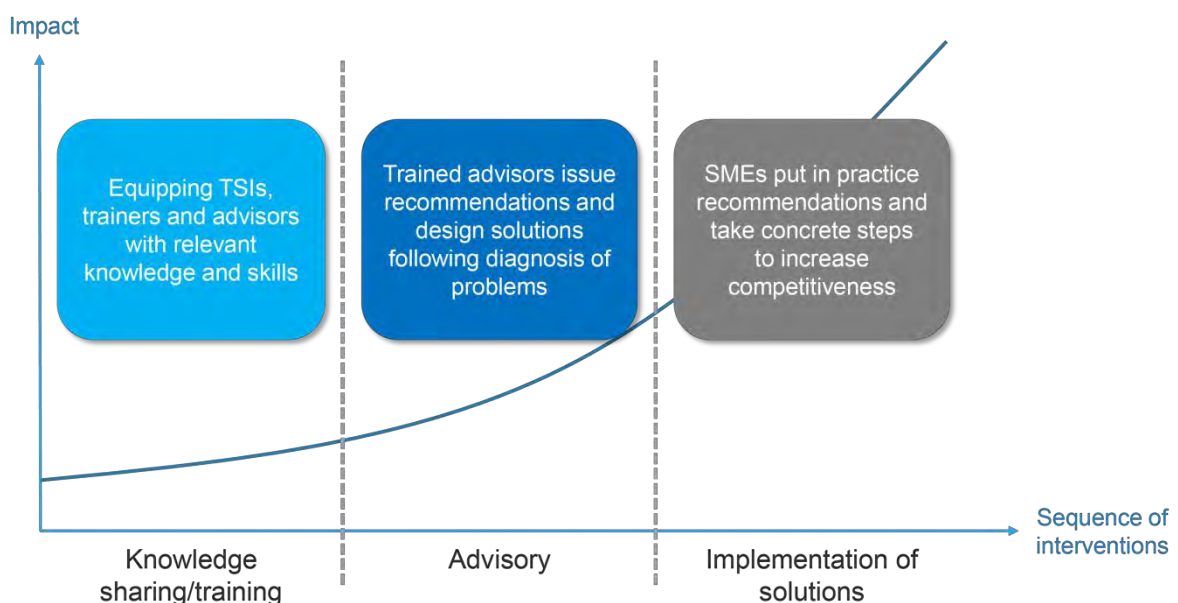
understanding of the factors that shape SME international competitiveness. Maximising this competitiveness requires SMEs to understand the needs of their customers in order to develop an offer in response to those needs. Concurrently, SMEs need to respond to the highly competitive global market, which requires constant innovation of products and services, as well as in their production and distribution processes and organisational set up. Approaching these two priorities in tandem is crucial for SMEs which are already connected to markets in which they need to maintain and constantly upgrade their operational productivity.

Due to the increasing importance of value chains, one of ITC's priorities is to facilitate SMEs' access to these value chains and build partnerships with the private sector. For example, links can be established with multinational companies which have, as part of their "shared value" strategy, the priority of diversifying their network of suppliers and distributors in developing countries.

From knowledge building to customised implementation of solutions for impact

ITC assists SMEs in building their capacities following a three-step approach:

- *Knowledge sharing/Training* in which ITC's interventions equip TSIs, trainers and advisors with the skills, knowledge, tools and processes to increase the capacity of SMEs to respond to market needs.
- *Advisory services* in which the trained advisors issue recommendations and design solutions for SMEs to take action following a rigorous methodology.
- *Implementation of solutions* in which SMEs put into practice recommendations and take concrete steps to increase their international competitiveness.



While it is important to follow each step, ITC's interventions will increasingly place greater emphasis on the implementation of solutions. After intervening at the training and advisory levels, ITC will continue to partner with SMEs, including through collaboration with TSIs, to ensure planned steps are transformed into concrete actions which lead to tangible results. This is important to ensure long-lasting, transformational impact.

Pillar 1: Formulating strategies to enhance international competitiveness

The development of a sound business strategy adapted to the needs of the market and based on a realistic view of resources and critical business tasks is an important component of becoming internationally competitive. A competitive strategy demands clear ideas for future direction by taking into account the strengths and weaknesses of the enterprise. ITC's tools help SMEs build on strengths as well as identify underperforming areas, and provide concrete recommendations for improvement.

ITC helps SMEs formulate business strategies by guiding them along the different steps: from the development of a business idea to the design and implementation of a business strategy.

ITC's interventions are guided by a thorough assessment that helps clients identify and prioritise needs. This entails analysing the environment from which SMEs draw their resources, and addressing factors such as access to timely and reliable information; access to finance; availability of appropriate technologies; export consortia and business incubators; availability of a qualified pool of workers; and support to SMEs from the academic and business worlds.

The role of competitive trade and market intelligence in strategy formulation

SMEs require access to information on markets, sectors, products, services and prices to make the best decisions in this fast changing environment. In particular, they need precise information which can facilitate entry into selected markets, make export operations sustainable and manage risks in the different stages of the export process.

Formulating competitive business strategies cannot be an isolated one-off exercise. In the rapidly evolving conditions of competition there is a need to constantly assess and upgrade the business strategy. ITC's **competitive intelligence** service enables TSIs and SMEs to permanently scan the information landscape to access and interpret information about trade trends, technologies, innovation, customers, competitors, and distributors. ITC's **trade and market access databases** contribute substantially to providing such information to SMEs. ITC's Standards Map helps SMEs navigate the ever growing world of private standards.

Pillar 2: Adding value to trade

The process of value addition is crucial to taking advantage of new trade opportunities for economic growth and diversification. On average, more than 90% of gross margins are captured by the importer and foreign retailer, leaving most undifferentiated SMEs in the developing world with only a small share in the total profits of the value chain. Value addition is a multi-faceted notion comprising: (i) value acquisition by improving efficiency, (ii) value retention (iii) accumulation through product

differentiation, (iv) value creation by expanding productive capacity and (v) value distribution for maximising impact for poverty reduction. ITC's interventions assist SMEs to capture more value by producing higher quality goods and services, building stronger brands, and developing marketing programmes which can promote greater export diversification. Value addition is a continuous process of upgrading and improvement requiring constant innovation.

ITC's solutions help SMEs develop or strengthen their capabilities to provide a differentiated and value-added offer, and address production and logistics-related difficulties that SMEs face in becoming internationally competitive across the export value chain. This is linked to:

- *Logistics and supply chain:* Meeting customers' product or service requirements through effective and efficient production management, operations, procurement, sourcing of materials, inventory management, as well as inbound, outbound and internal logistics.
- *Export marketing:* Differentiation through branding, innovative products/services, and packaging design.
- *Meeting technical/quality requirements:* Complying with standards, technical regulations, and sanitary and phyto-sanitary (SPS) measures, organizing after-sales services and achieving internationally recognized certification. In this respect, ITC's NTM surveys and private standards map provide a solid information base to help SMEs ensure compliance with quality standards.

Pillar 3: Fostering market linkages

SMEs need to market their products and services to targeted clients. ITC helps SMEs by developing and/or strengthening their operational marketing and sales capabilities, and addressing the problems SMEs face when attempting to identify clients and enter international markets –either directly or as part of a regional or global value chain.

Existing or potential clients may have different or changing needs and purchasing habits. SMEs need to adapt their design, offer and approach to these clients depending on these specificities.

E-solutions and e-platforms can play a part in transforming the way that SMEs communicate, sell and deliver their offer by providing faster and cheaper connection to international markets.

Helping SMEs foster market linkages encompasses different steps:

- *Communicate with actual and potential customers* through promotional and advertising campaigns.
- *Identify the most adequate distribution channels and modes of entry to foreign markets* through direct or indirect export.
- *Identify and close sales opportunities* through the development of effective sales and negotiation skills, participation at buyer-seller events, as well as pricing and legal contractual capacity building
- *Develop partnerships with larger firms to become part of their supplier base.*

Strengthening trade and investment support institutions

SMEs may have limited capacity and resources to undertake the level of development required for internationalisation. They need access to relevant and responsive trade and investment support services to enable them to be more competitive and meet the demands of buyers. ITC depends on a network of TSIs that are both beneficiaries of the agency's work and implementing partners, providing services to enhance the international competitiveness of SMEs. ITC places strong emphasis on strengthening TSIs such as Trade Promotion Organizations (TPOs), Investment Promotion Organisations, Chambers of Commerce, Coalitions of Services and other sector specific and functional associations to allow them to better support their SME clients through the internationalisation process.

ITC supports TSIs in delivering services by providing technical advice, training and information either through a modular basis or under a full-fledged performance improvement programme. This programme, termed Assess Improve Measure (AIM) for Results, reflects ITC's integrated approach to institutional development. This intervention improves TSI performance through long-term (1-3 years) intensive support. The Aim for Results programme comprises the following three stages:

Assess

ITC's support begins with a thorough assessment of the institution through a benchmarking process across 225 key indicators to help identify strengths and weaknesses in comparison with similar organizations. ITC can also conduct a mapping of the overall TSI network in the country to identify gaps and opportunities for more efficient service delivery.

Improve

The next stage is to design a performance improvement plan where ITC works jointly with the TSI to identify key areas of improvement for the institution and chart a detailed road map for its implementation. This is followed by a programme built around the actual interventions involving training, advisory services and coaching solutions on key areas of performance improvement such as leadership and direction, resources and processes, and networking.

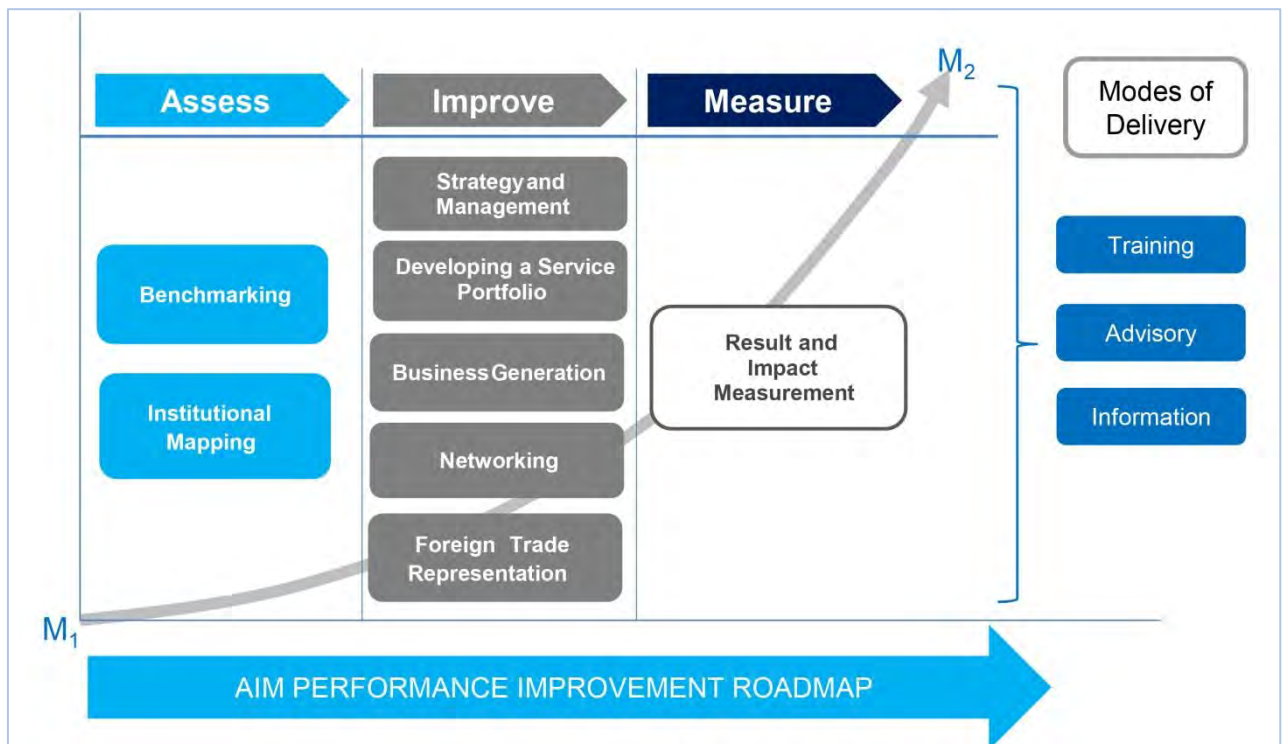
In addition to strengthening the managerial and operational capacity of TSIs, ITC offers customized support to upgrade technical services provided by the institution. The specific service areas covered under ITC assistance include: competitive intelligence, market analysis, supply chain management, policy advocacy, marketing and branding, gender and environment mainstreaming, among others.

Measure

The design and implementation of results measurement systems is a key part of ITC's assistance. By the end of the engagement under AIM, participating TSIs will have a system in place that will allow them to measure results and learn from the evaluation of its own performance. The performance measurement system also enables the TSI to better demonstrate the results or value that it adds to its clients. The AIM programme ends with a final benchmarking of the institution to evaluate the improvements made during the course of ITC's assistance.

At the end of ITC's assistance, TSIs are in a better position to:

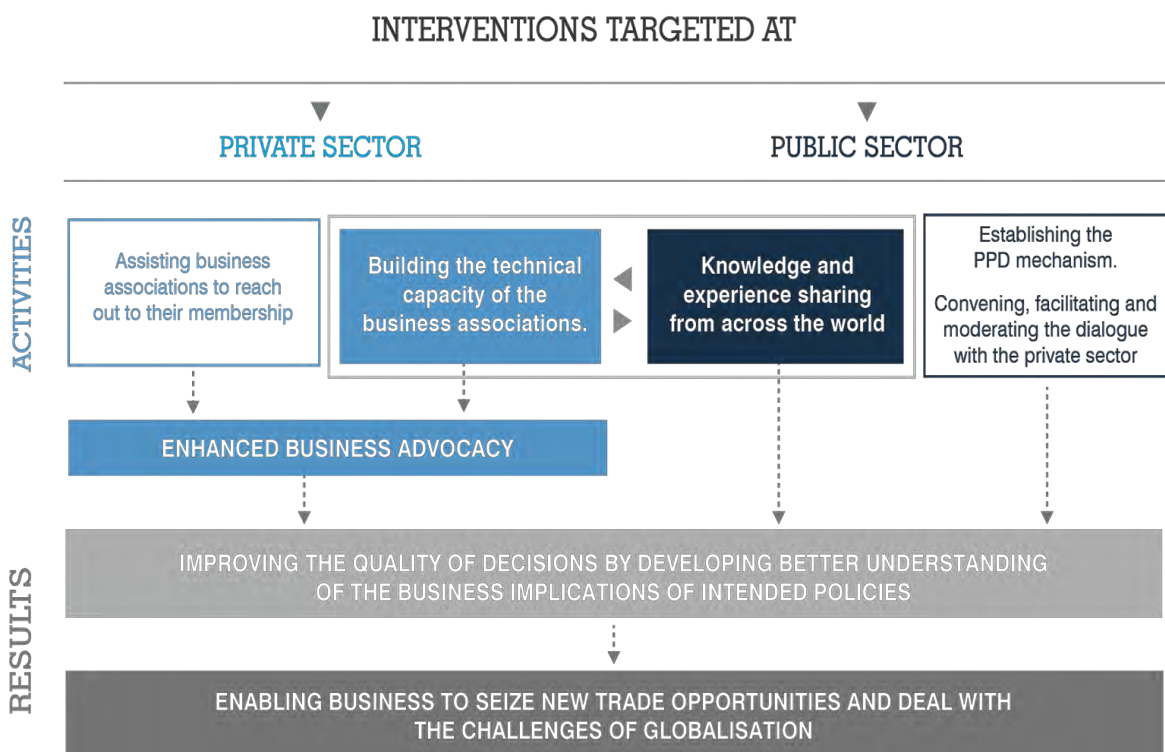
- Develop the capabilities of SMEs to internationalise.
- Enable the internationalisation of SMEs through trade development & investment facilitation, and creation of business linkages.
- Advocate the needs and requirements of SMEs to policy makers.



Contributing to a conducive business environment

Policy and regulatory choices have a significant impact on SME competitiveness and play a crucial role in determining whether SMEs are able to link to value chains. ITC supports developing countries in fostering a business environment that is conducive to trade growth by facilitating the inclusion of the private sector perspective into the policy-making process. The organization assists in institutionalising public-private dialogue for the formulation of trade strategy and policies at national and regional levels and promotes evidence-based business advocacy to help the private sector become active participants in policy and regulatory environment reforms. Institutionalised and inclusive public-private dialogues provide a setting in which stakeholders come together to address obstacles to achieving international competitiveness and to identify customised solutions to remove them.

Improving supply chain performance can be greatly enhanced by coherence of policies and regulations implemented by different government agencies. A co-ordinated approach taken by the private sector through well-informed business advocacy and active collaboration with the government can contribute substantially to achieving coherence among various policies and regulations.



ITC uses public-private partnerships to:

- Assist governments to better define and align their **regional, national and sectoral export strategies** to domestic institutional, geographical and resource endowments, as well as the current international trade environment. ITC has a framework to assist stakeholders in applying a comprehensive approach to export strategies by analysing all relevant determinants of competitiveness: at, behind and beyond the border. These strategies mainstream inclusive and sustainable dimensions.

- Support **WTO and regional integration trade negotiations** with a view to building private sector (especially SMEs') capacity to understand the business opportunities and benefits of WTO accession and regional integration agendas. These interventions improve the ownership and quality of policy making and securing buy-in of stakeholders.
- Address **non-tariff measures**: NTM surveys conducted by ITC are the starting points for identifying measures which can be prioritised for action and for capacity building in an effort to create a business environment conducive to the internationalisation of SMEs. In view of the growing 'servicification' of the economy, regulatory impact assessments of the services sectors are used to initiate the public-private dialogue to strike a balance between the interests of business to reduce costs and improve competitiveness, and the government's objectives of promoting competition, preventing market failures, preserving consumer safety, promoting decent labour, protecting the environment, and promoting universal access to services.
- Promote **trade facilitation** to help SMEs overcome challenges posed by complex customs rules and red tape associated with border procedures. Improved border management can increase the attractiveness of the economy and boost the international competitiveness of SMEs. ITC's interventions are aimed at helping countries and SMEs implement the WTO Agreement on Trade Facilitation but also reduce trade costs related to wider cross-border trade elements. Building on ITC's work on non-tariff measures, additional administrative reforms that make it easier for low value shipments to cross borders also help SMEs to boost their exports.

Thought leadership over SME competitiveness

ITC contributes to the debate on SME competitiveness issues through statistical information and thematic analysis. In 2015, ITC will launch the first of a series of annual publications on major themes related to the international competitiveness of SMEs based on its on-the-ground experience working with the private sector. ITC also provides thought leadership in matters linking SME international competitiveness with the Millennium Development Goals and the post-2015 development agenda.

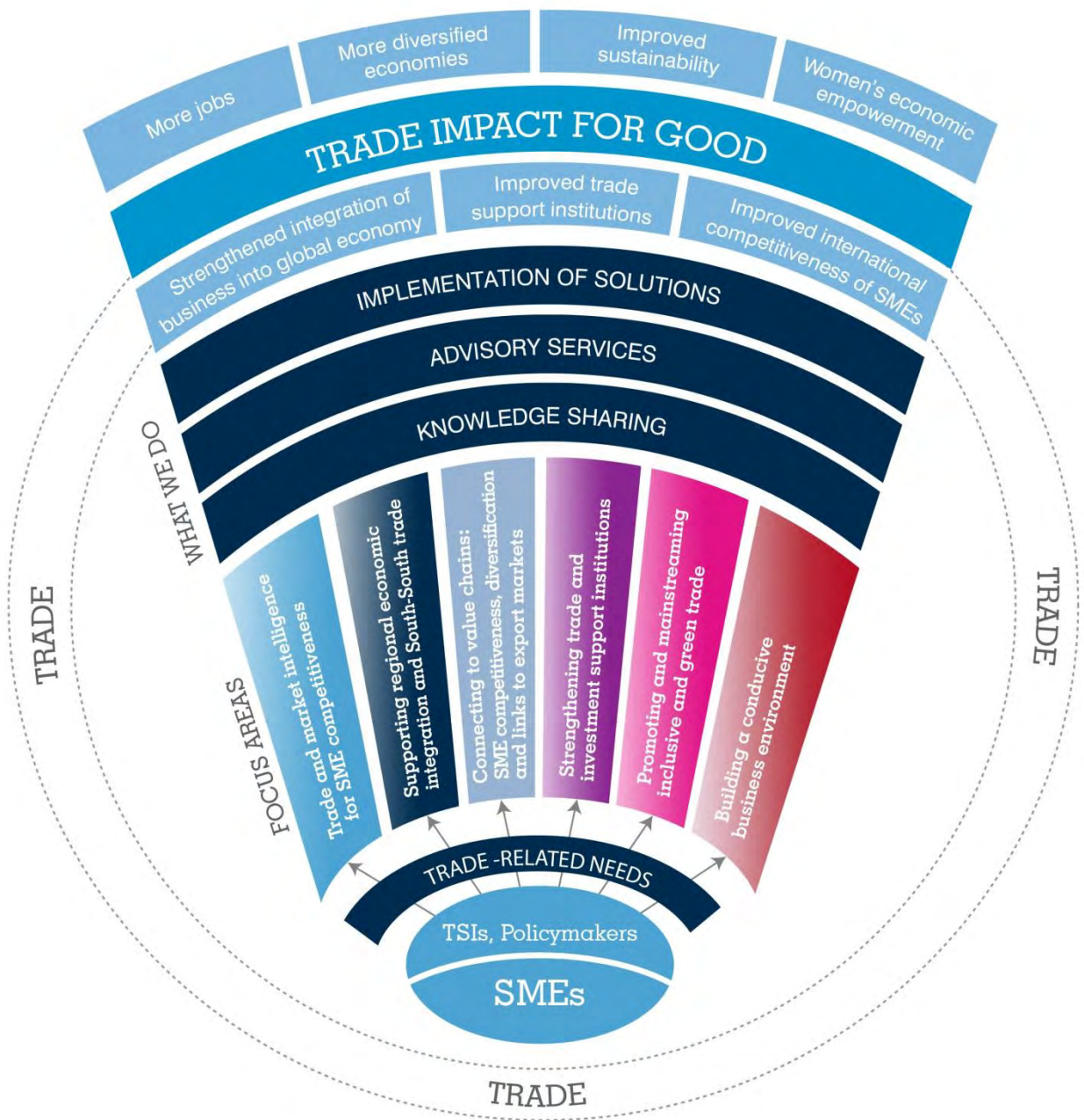
ITC committed to results and impact

Translating this intervention logic into implementable programmes in the six focus areas will ensure that ITC can deliver Trade Impact for Good. This relationship is illustrated in the diagram in Appendix. . All of ITC's programmes and projects track results against output and outcome targets, and the organization shares these results on its website. (www.intracen.org).

ITC embarked on an attempt to estimate the agency-wide impact of selected projects in 2013. Moving forward ITC will strengthen these foundations and continue to embed results-based management principles, evaluation and long lasting transformational impact analysis in all its programmes.

Appendix

ITC Trade Impact for Good





FSC is an independent, non-governmental, not for profit organization established to promote the responsible management of the world's forests.

Printed by ITC Reprographic Service on FSC paper, which is environmentally-friendly paper (without chlorine) using vegetable-based inks. The printed matter is recyclable.

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