SME Competitiveness & Aid for Trade

Connecting Developing Country SMEs to Global Value Chains

ITC & WTO Joint Study Overview

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Failure rates high among exporting SMEs

• SMEs are the backbone of the global economy

• 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 (opportunistic, not relationship based).
Path of least resistance? ACP SMEs gravitate to services

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Large (100 and over)</th>
<th>Medium (20-99)</th>
<th>Small (&lt;20)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and retail trade</td>
<td>78</td>
<td>168</td>
<td>247</td>
<td></td>
</tr>
<tr>
<td>Supporting and auxiliary transport activities</td>
<td>11</td>
<td>35</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Construction, Transport</td>
<td>57</td>
<td>60</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Other services</td>
<td>26</td>
<td>48</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>233</td>
<td>323</td>
<td>215</td>
<td></td>
</tr>
<tr>
<td>Manufacture of wearing apparel</td>
<td>79</td>
<td>58</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>57</td>
<td>44</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Manufacture of food products and beverages</td>
<td>218</td>
<td>161</td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Manufacture of fabricated metal products</td>
<td>41</td>
<td>36</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Manufacture of chemicals and chemical products</td>
<td>71</td>
<td>77</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>41</td>
<td>109</td>
<td>101</td>
<td></td>
</tr>
</tbody>
</table>

Source: ITC, 2014
Pathways to internationalization: start by supplying an exporter...

Company size by export status

Source: ITC (2014) based on World Bank data
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?
- How to support high-growth SMEs successfully grow and transition (e.g. from small to medium to large, or national to international)?
Rekindled interest in SMEs…

• Financial crisis spurred renewed focus on SMEs as part of private sector development strategies

• Work of existing Development Finance Institutions

• South-South partners becoming engaged

• Base of pyramid business development models

• Corporate philanthropy
With a focus on finance through G-20…

• Some 55–68% of formal SMEs in developing economies are either un-served or under-served in terms of their access to financing

• G-20 SME Finance Challenge: (Innovative approaches)

• Renewed interest in Development Finance Institutions (multilateral /bilateral) and SME finance vehicles and SME financing vehicles

• Trade finance programmes of multilateral development banks
How to capture 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
Concluding remarks

• SME development is integral “inclusive, sustainable growth” and post-2015 Development Agenda.

• Economic crisis rekindled private sector development approaches and interest in SMEs, with a focus on “market solutions”

• SME development works with large number of small beneficiaries. Challenge: How to scale up support without becoming too diffuse? How to integrate trade dimension?

• Internationalization by “design or default”?
5th Global Review of Aid for Trade
30 June - 2 July 2015
“Reducing Trade Costs for Inclusive, Sustainable Growth”
www.wto.org/aftmonitoring
Looking for your views on how to make Aid for Trade more effective

HERE & NOW!
Trade Promotion Organization questionnaire

DURING YOUR STAY OR AT HOME!
CASE STORY
https://www.research.net/s/PRIVATE_SECT_OR_CASE_STORY_2015