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SMEs: the world's missing link to inclusive and sustainable economic growth and development

First edition of ITC's SME Competitiveness Outlook highlights needs to recognize impact of small and medium-sized enterprises on inclusive economic growth to close global productivity gap

(Geneva) – Small and medium-sized enterprises (SMEs) are the missing link to sustainable economic growth and are fundamental to addressing inequality and ensuring greater inclusiveness, according to the *SME Competitiveness Outlook 2015: connect, compete and change for inclusive growth*, which was presented in Geneva today.

In a cooling global economy, the SME Competitiveness Outlook suggests that improving SME productivity will translate into more and better paid jobs, distributed across less fortunate sections of the economy. Allowing SMEs to 'internationalize' – through exports or imports – leads to higher productivity, wage, and employment gains. And such boosts to the competitiveness of SMEs again lead to better and inclusive growth.

The Outlook calls on policymakers to step up efforts to bridge the 'productivity gap' between small and large developing-country enterprises if they are serious about tackling inequality. The productivity gap between small and large firms observed in developing countries is at least double the size of the gap observed in developed countries. In some developing countries the gap is significantly larger with the productivity of large firms up to ten times that of small firms.

Wages tend to mirror productivity differences, too. Wages in small firms in Brazil, for example, are around 40% of those in larger ones. In Germany, meanwhile, wages in small firms average around 70% of those in large ones. By tackling the reasons for this gap – which vary by region, sector and country – the *SME Competitiveness Outlook* suggests, SME competitiveness is bound to improve.

'Large companies everywhere tend to be more productive than small ones. But the gap in productivity is far wider in developing countries,' said ITC Executive Director Arancha González. 'Low productivity means lower wages and worse working conditions. However, this productivity gap has a silver lining: there is a lot of room to improve.'

Connect, compete and change

The *SME Competitiveness Outlook* sets out country-specific constraints most relevant to business success by breaking them down into three key pillars: the ability of SMEs to connect, compete and change. It systematically analyses these determinants of SME competitiveness at the level of companies, their immediate business environment, and national policy.

For SMEs to succeed in international markets, the report argues, greater focus is needed on connectivity and internet and electronic connectivity in particular. It finds that the biggest gap between

small and large firms is in e-connectivity, with three regions – East Asia and the Pacific, sub-Saharan Africa and South Asia – performing worst.

For landlocked developing countries (LLDCs), which have no direct access to ports, the world's lowest e-connectivity rates add another challenge to businesses' efforts to reach foreign markets. Least-developed countries (LDCs) also lag behind in connectivity: small firms attain only 22% of the connectivity score of their large local counterparts, compared to 64% in developed countries.

The report also finds that SMEs from developing countries score the best in the 'compete' pillar. In the SME Competitiveness Grid, the 'compete' gap between medium-sized and large-sized firms is only 11% in developed countries, compared to 18% for developing countries (excluding LDCs).

In LDCs, however, small and medium firms attain only 57% and 77% respectively of the 'compete' score attained by large firms, compared to 74% and 89% in developed countries. Dragging LDCs' scores down are the low rates of firms with bank accounts (25% and 40% for small and medium companies, respectively). Small firms in South and East Asia, and the Pacific, however, score poorly on quality certification.

Among the surprise findings of the *SME Competitiveness Outlook* is the performance of Latin American and Caribbean SMEs. They come out as strong entrepreneurial performers, outpacing average performance in other regions as assessed in the report, including in Asia and the Pacific. In fact, medium-sized firms in the Latin America/Caribbean region outperform the 'median global firm', whereas small firms perform stronger than their peers in most other regions. However, their overall position in global markets is often weakened by a relatively weak business environment at the immediate and national level

'There are no easy answers for achieving growth that is both sustained and sustainable. The *SME Competitiveness Outlook* allows us to know a bit more about making growth a bit more inclusive,' Ms. González said.

Notes to Editors

A digital copy of ***SME Competitiveness Outlook 2015: connect, compete and change for inclusive growth*** can be downloaded here www.intracen.org/smeoutlook

The following countries are included profiled in the pilot competitiveness index: Bangladesh; Burkina Faso; Cambodia; Colombia; Côte d'Ivoire, Egypt; Guinea; Indonesia; Jamaica; Kazakhstan; Kenya; Madagascar; Malawi; Mauritius; Morocco; Paraguay; Peru; Rwanda; Senegal; Sri Lanka; United Republic of Tanzania; Thailand; Trinidad and Tobago; Tunisia; and Uruguay.

About the International Trade Centre

ITC is the joint agency of the World Trade Organization and the United Nations. ITC assists small and medium-sized enterprises in developing and transition economies to become more competitive in global markets, thereby contributing to sustainable economic development within the frameworks of the [Aid-for-Trade agenda](#) and [the Global Goals for Sustainable Development](#).

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