SMEs and Sustainable Development: Challenges & Opportunities

UNCITRAL Panel on “Challenges faces by MSMEs in the modern economy: selected reasons behind networks of MSMEs

A presentation to:
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ITC’ SME Competitiveness Outlook (SMECO)

Themes:

- 2015: Connect, compete and change for inclusive growth
- 2016: Meeting the standard for trade
- 2017: The region: A door to global trade
- 2018: Business Ecosystems for the Digital Age
- 2019: being produced
Connect, compete and change for inclusive growth
Why SMEs are important? What matters for SMEs, matters for your people

Productivity increases of SMEs can contribute to growth and to inclusiveness at the same time.
SME characteristics: Productivity and wages

- SMEs are generally less productive than large firms
- The gap is larger in developing countries
- A similar pattern is observed in wages

Source: OECD-UN- ECLA C (2013)
SMEs face challenges directly related to their size (i)

- SMEs struggle to gain access to information on export opportunities…
- …adding to other challenges to meet mandatory and voluntary standards…
- …calling for stakeholders to facilitate SME implementation and verification of standards
SMEs face challenges directly related to their size (il)

• SMEs still suffer from a lack of funding for working capital and investment needs.

• SMEs struggle to attract high quality workers due to inadequate market supply…

• … as well as their own limited ability to train their own employees

• Technology adoption and scope for innovation are often weak among SMEs…

• … logistics costs relative to sales are significantly higher for SMEs than for large firms
Pooling resources to overcome challenges (i)

- Due to small sizes, SMEs have limited political bargaining power…
- …for which they can compensate by working with trade and investment support institutions…
- …regional networks also provide support
• …or by forming clusters …

• Clusters can help SMEs to improve their productivity, innovation and overall competitiveness. What makes clusters potentially beneficial to SME competitiveness are the opportunities of ‘collective efficiency’, derived from both positive external economies and joint actions.

• Clusters can facilitate innovation spillovers … cluster development policies can help to develop local competitive factors and strengthen linkages.
A menu for cluster development
(SMECO 2015)

Facilitate the development of external economies
- Build specialized labour force skill centres

Promote linkages among firms
- Create and enhance trust among firms
- Promote the establishment of collective projects
- Create and strengthen business associations
- Strengthen local supply of financial and non-financial services
- Facilitate the external connections of the cluster
- Promote innovation

Strengthen the local position within value chains
- Attract the chain leaders into the clusters
- Sustain the upgrading of suppliers
- Facilitate interaction within value chains
- Promote access to new markets and value chains
- Assist SMEs in meeting international standards

Source: Pietrobelli, Carlo and Roberta Rabello (2006).
Firms connected to international markets are more productive and create more employment

In Tunisia, being connected to international markets …

- boosts firms’ productivity by 143%
- raises firms’ profitability by 196%
- increases firms’ contribution to job creation by 16%

Source: Baghdadi (2015)

SME competitiveness matters for inclusive growth
Deep integration: part of the toolkit for inclusive growth

Reducing the competitiveness gap

For example, deepening Ecuador’s commitments by one policy area can reduce the competitiveness gap, making it comparable to that of Slovakia.
How much coherence on inclusiveness policies?

Women, SMEs now get more attention in trade agreements

In recent trade agreements, gender equality references and SME provisions have more than tripled.

1995 – 1999
- 14% women
- 6% SMEs

2010 – 2016
- 47% women
- 25% SMEs

Taxation? Not really
Coherent policies benefit everyone

Infrastructure: not just an afterthought

Supply chain managers look at trade, investment and taxation as one package

For the widest benefits, economic and inclusiveness policies should be developed in coherence.

economic policies
trade, services, investment and infrastructure

inclusiveness policies
taxation, gender equality and SMEs
An SME Guide to Value Chains

Looking through the lens of a supply chain manager

Tailored advice
Competitive SMEs can help realise the SDGs (forthcoming SMECO 2019)

Note: SME business practices and sectorial focus can impact multiple SDGs, the most important ones are included in this figure.
Source: ITC
How to put SMEs under the radar of investors?

- => ITC’ Supplier Capacity Profiles

- This profile complements the wealth of market intelligence on the readiness of a country for investment with firm-level information on key sectors.

- It provides a snapshot of the investment context in the country’s firms grounded in unique survey data.

- A sectoral analysis highlights tangible investment opportunities for achieving the Sustainable Development Goals in the country.
ITC’ Supplier Capacity Profiles

Filling a gap

❖ How to bring investment to SMEs?
   • Change the information provided to investors!

❖ SMECS data to fill the gap:
   • SMECS Supplier Capacity Profiles provide a snapshot of the investment context grounded in unique survey data from the firms themselves.
   • SMECS Supplier Capacity Profiles are complementary to existing market intelligence.
Supplier Capacity Profile

Structure:

i. Two pages introducing the country performance (macro) and link to the SDGs: Text (A) and Visuals (B)

ii. Two pages - per sector - drawing evidence from firm level data collected (micro): Text (C) and Visuals (D)
ITC work on model contracts for small firms

Model Contracts

Many small companies are now engaged in international trade, but don’t have access to the necessary contract forms to protect themselves. ITC and leading legal experts developed eight generic contract templates that incorporate internationally recognized standards and laws for most small business situations.

The contract templates provide practical ways to secure international business for small firms and bridge many legal and cultural traditions by harmonizing recurring legal provisions common to most international contracts.

These templates are for key trade activities such as the sale of goods, distribution, services, joint ventures, and more. They were originally published in ITC’s 2010 book Model Contracts for Small Firms: Legal Guidance for Doing International Business.

ITC Model Contract for an International Contractual Alliance

This model contract models is for partnerships between two companies or businesses either locally or internationally. This is the most common type of business contract. This contract model is for two parties who wish to form an alliance or collaboration. Every contract situation is different, and this model provides a series of options to help users tailor the contract to their specific needs.

This International Alliance Model Contract suggests:
• A Management Committee where the two contractual parties are represented.
• The parties will share costs 50-50.
• Each party will have clear areas of responsibility explained in the contract.

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Thank you!

For more information:

http://www.intracen.org/SMEOutlook/

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