

Small and Medium-Sized Enterprises (SMEs) in Latin America After the Crisis. New Challenges for Institution Building

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SMEs in Latin America and the Caribbean (LAC)

SMEs are not marginal agents in terms of their ability to foster productive development

- An important source of employment
- Focused on domestic market with small participation in exports
- Consists of different types of firms ranging from small subsistence enterprises to medium-sized exporting firms

Performance in selected countries

PAÍS	NUMBER OF FIRMS	EMPL.	SALES	EXPORTS
ARGENTINA	26,8	43,6	41,0	8,4
BRAZIL	15,4	42,6	25,9	12,5
CHILE	17,2	21,2	18,3	3,7
COLOMBIA	3,8	32,0	17,1	ND
ECUADOR	44,3	24,0	15,9	Less than 2%
EL SALVADOR	8,2	27,7	34,3	Less than 2%
MÉXICO	4,3	30,8	26,0	Less than 5%
PERÚ	1,9	11,9	27,0	Less than 2%
URUGUAY	21,2	47,0	ND	ND

Productivity gap with respect to large firms (2002-2003)

Germany	75
Spain	65
France	76
The Netherlands	75
Italy	82
United Kingdom	66
Chile	27
Ecuador	38
Brazil	45
Colombia	48

Fuente: ECLAC, on the basis of official information

2. SME's Policies and Institutions in LAC

The evolution of policies and institutions

During the 1970s and 1980s	Isolated actions
Between the end of the 1980s and mid-1990s	Almost no policy
Since the mid-1990s	Resurgence of policies but more statements and declarations than actual commitments and actions
In recent years	The number of effective programmes has increased in most countries

The policy context

- Subordinate to macroeconomic and sectorial policies
- Designed by weak government departments with limited political leverage
- Characterised by an insufficient allocation of human and financial resources. In smaller economies, the resources come from international agencies
- Designed with unreliable information, gather using inconsistent methodologies

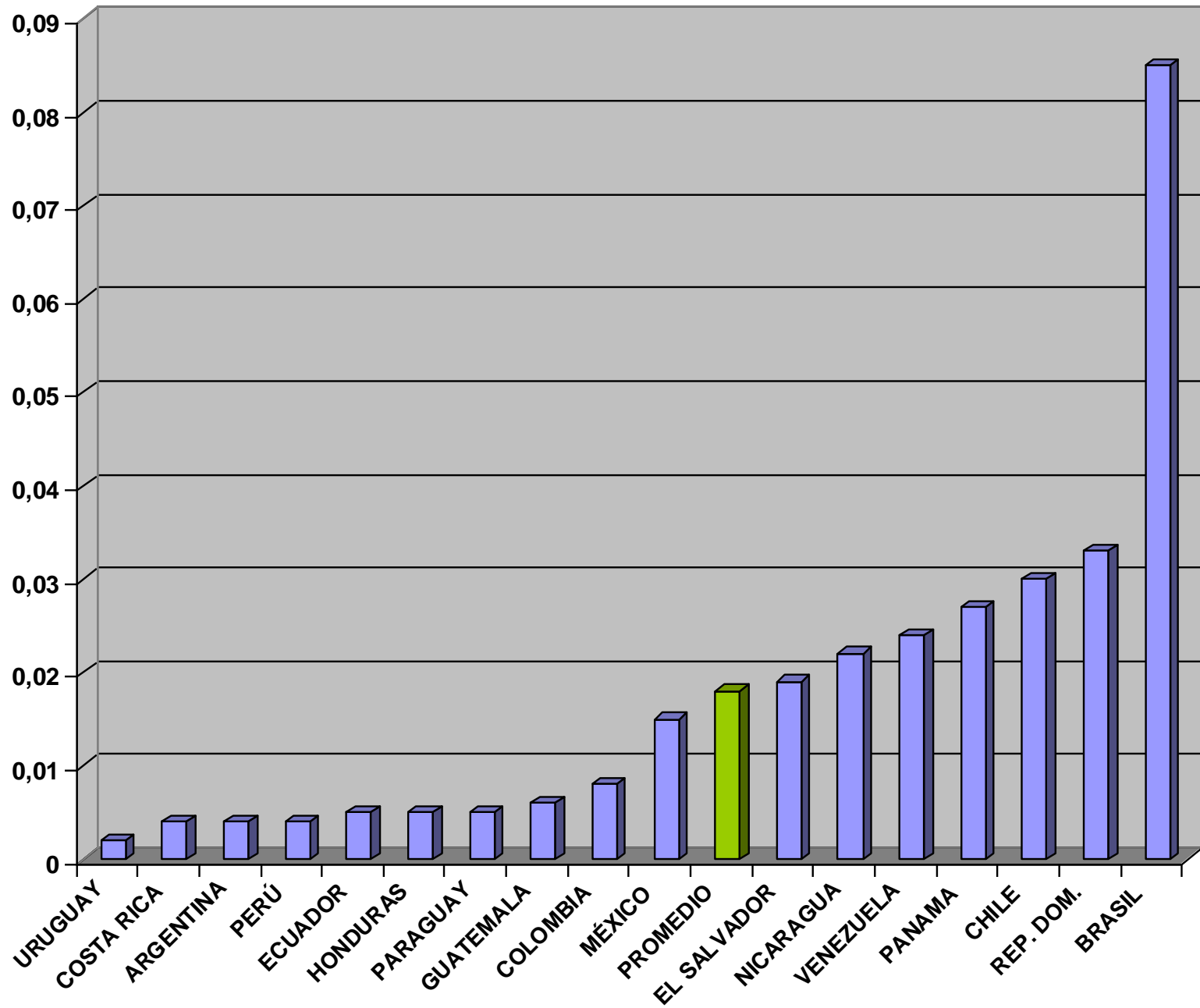
Institutional development

- Countries with strong institutional structures:
Brazil (SEBRAE) and Chile (CORFO-SERCOTEC)
- Countries in the process of developing stronger institutional structures: Colombia, Mexico, El Salvador
- Countries with weak institutional structures:
Argentina Costa Rica, Ecuador, Nicaragua, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela

**The development of institutional structures is crucial
to design and implement policies,
and allow for a continuous learning process**

SME's Institutions Spending as Percentage of GDP (2005)

Source: Angelelli, 2006



Frequently Encountered Problems

- A lack of an integrated vision due to:
 - ✓ a separation of financial and non-financial instruments
 - ✓ the duplication of interventions and efforts
- The diversity of beneficiaries and stakeholders is rarely taken into account
- Policy design: the firms are insufficiently consulted

Operational problems

- The beneficiaries are not aware of the existence of such instruments
- Firms have difficulty in identifying and defining their requests
- The policies are limited in scope
- The attention is focused on a small number of beneficiaries which can repeatedly receive support, advisory services and technical cooperation

Progress made in the structure of policies

- New and efficient policy instruments have been implemented in almost all countries
- The importance of linkages and clustering is increasingly acknowledged
- Instruments derived from international experience are no longer the only model used as a benchmark
- The transition from the best model to the best process. LA countries are more conscious of the importance of the process
- The key is the development of local institutional solutions and capabilities

A long term problem: access to credit and financing

- Limited access to credit constrains the expansion of SMEs
- The segmentation of credit markets persists after all these years of financial reform
- Limited use of new instruments (collateral and reserve funds, behaviour-based credit scoring, leasing and factoring)
- Subsidies must be included among the actions oriented towards tackling the needs of SMEs

Innovative ways of financing

- The electronic factoring system of Nacional Financiera (NAFIN) in Mexico
- The credit to the *Arranjos Produtivos Locais* (APL) in Brazil
- The credit line by payroll from Banco de la Nación in Argentina

Productive linkages

- Increasingly accepted and implemented throughout the region
- Generate competitive advantages and externalities through cooperation and coordinated actions
- Act as an answer to the fiscal constraints of the programmes

Productive Linkages and Territory

Territory is a social, historical, political and cultural construction.

- a) The facilitator of a favorable environment for the development of positive externalities
- b) The decisive factor for strengthening and developing the capabilities and quality of economic agents

Productive linkages highlight the relationship between the productive dimension and the social and institutional context

Summary

- The number of experiences in productive linkages has increased in the region
- The larger number of initiatives reveals the increasing importance given by the public sector to SMEs
- The progress also poses additional policy and institutional challenges

Challenges

- Shift from “innovative experiences” to instruments of extensive scope
- Strengthen public-private partnerships
- Foster networks of firms and productive clustering
- Decentralize the formulation and implementation of policies (the importance of coordination)
- Increase the evaluation of instruments and policies
- Improve statistics and information systems

3. The Impact of Economic Crisis in LAC and the SME

The Impact of the Economic Crisis

- Repercussions in the region
 - Higher unemployment
 - Lower growth rates
 - Lower rates of investment
 - Lower amounts of remittances
 - Lower quantities and values of exports
 - Budget deficits

Summary

- The economic crisis interrupted positive growth rates maintained over a period of 6 years
- Although the worst stage of the economic crisis appears to be over, the recovery process will be slow
- It is estimated that GDP will fall 1.5 per cent by the end of this year with a high rate of unemployment estimated at 8.5 per cent

Summary (continued)

- The crisis will have a negative impact on poverty.
 - More than 180 million people under the poverty line
 - More than 70 million people experiencing absolute poverty
- Next year will see higher levels of GDP; however, these levels are not sufficient to recover the previous social indicator levels before the crisis

The Impact of the Crisis

Depends on the productive and economic structure of each LAC

- Lower demand in US affects Mexico
- Lower remittances affect Mexico, Central America, Ecuador and Caribbean countries
- Lower exports affect countries which are more export-oriented

A New Context

- Recuperation depends on public capacity to implement active and contra-cyclical policies
- New policies need to be developed within a world with a slower global economy
- New factors should be considered such as exports, natural resources, and climate change

The Impact of the Crisis

- More financial and employment programs which focus on short term results have appeared
- Fewer resources are available to SME institutions in several countries
- This combination of elements could lead to a transfer of SME policy competencies to government bodies which head labour or social development programs.

Crisis and The Technological Gap

- In a crisis scenario, enterprises redefine their capacities, production process and organisation, and investment strategies
- Firms operating in the technological frontier:
 - show a propensity to take on fewer new or high risk investment projects, while continuing to investment in activities with a high R&D component
- At the country level, a short term response could reinforce backwardness and a marginal position in the global economy

Implications

- Changes in the productive structure with reduction of human and technological capacities in countries will distance firms from the technological frontier
- The need to negotiate the definition of a long term productive strategy, not dominated by short term considerations

4. The Great Challenge

Building Stronger Institutions

- A long-term project
- Requires stable institutional structure
- Permits institutional learning
- Dependant on human and finance resources

There are no easy answers to complex problems whose solutions demand consistent efforts over a period of time that can be measured in years, or even decades

How Do We Build A Stronger Institutional Framework?

- Consider the value of SME and productive policies in the national policy framework
- Acknowledge that effective policies require new concepts, methods and practices
- Invest resources to increase abilities to design, implement and evaluate actions
- Provide information which is accurate and collected on a routine basis

How Do We Build and Strengthen Policies and Institutions?

- Provide value added and knowledge in a heterogeneous universe of agents
- Create institutions which are stable, flexible, and staffed by qualified professionals
- Harmonize short term goals with a long term institutional construction

Conclusion

- There is hope: the public and private sectors are working together in strategic planning
- What is most important is to learn through the process
- We should acknowledge the time necessary to realize long term goals
- SMEs are becoming increasingly important in the public agenda

Conclusion (continued)

- Each country is unique and demands its own strategies and policies
- In more unstable times, institutions which are flexible, and capable of learning and adapting are fundamental
- The implementation of these policies hinge on patience, persistence and tenacity
- Society should be interested in SME policies and value them for their capacity to promote entrepreneurial development, employment and social cohesion