

**BOLOGNA 2000 SME CONFERENCE
BUSINESS SYMPOSIUM**

**ROUNDTABLE 4:
Enhancing the Competitiveness of SMEs in Transition Economies and
Developing Countries in the Global Economy and their Partnership with
SMEs of OECD Countries**

ISSUES PAPER

This paper is intended to provide a basis for business participants in the Business Symposium Roundtable on SMEs in Transition and Developing Economies to be held in Bologna on 13 June. **Roundtable presentations and discussions will highlight specific suggestions for concrete initiatives** in the spirit of those included in the final declaration of the conference and will be presented to Ministers during the 14-15 June Bologna Conference.

ROUNDTABLE 4

Enhancing the Competitiveness of SMEs in Transition Economies and Developing Countries in the Global Economy and their Partnership with SMEs of OECD Countries

ISSUES PAPER

1. The liberalisation of markets for goods and services presents particular issues for SMEs in developing and transition economies (T&DEs). In general, even in the more advanced of these economies, infrastructure endowments, financial institutions, the availability of qualified human resources and the public/private interface, are less well developed than in OECD Member countries.
2. In OECD economies, evidence suggests that sustained economic growth depends on a subtle interplay between SMEs and large firms, with SMEs playing a major role in job creation. Similarly, sustained growth in transition and developing economies also depends on a strong contribution by SMEs – the experience of Chinese Taipei being the classic case. In many T&DEs, however, economic conditions and the policy environment have stifled SME dynamism. While there may be many SMEs, they are often undercapitalised and technologically weak, operating outside the formal sector of the economy.
3. The emerging global economy poses both challenges and opportunities for SMEs in T&DEs. On the one hand, firms from these countries have greater access to international markets and technology and finance. On the other hand, they are exposed to competitive forces for which they are not well prepared. The job for governments lies in ensuring that existing domestic distortions disadvantaging SMEs are removed expeditiously, and in establishing adequate institutional and regulatory conditions which can put them on a sounder footing to participate in global commerce.

What are the key issues for improving the business environment?

4. In certain basic respects, the elements of the business environment that are favourable to large-scale enterprise investment are also favourable to SMEs: *e.g.* political stability, macroeconomic stability, a predictable, transparent set of commercial laws and regulations and their impartial enforcement. That being said, SMEs may well gain more, for example, from macroeconomic stability, insofar as they are less likely to be able to hedge against foreign exchange risk, they are likely to be the principal losers from a business environment rife with corruption and cozy business-government relations, and they suffer particularly from weak regulatory regimes in which payments from customers cannot be trusted. For many SMEs, both domestic and foreign firms seeking to invest, the unpredictability of doing business in many T&DEs is perceived as a major barrier; it often manifests itself in corruption or in the form of lengthy, complex and opaque bureaucratic procedures. This in turn encourages businesses to make quick returns, rather than aiming for sustained growth.

5. Access to finance is a special problem for growth-oriented SMEs in T&DEs. In the more developed economies there is a seamless chain of finance which allows firms to go from start-up micro-finance, to personal debt, to secured debt, to business angels, to venture capital, to IPO and public listing. However, the internationalisation of capital markets is not evenly spread, and the lower ends of debt and equity markets are not as internationally efficient as they might be. This means that SMEs in T&DEs are often unable to realise their growth potential. On the other hand, India offers some interesting experience in the role that its expatriates can play in supporting the emergence of a vibrant venture capital business to support new economy start-ups!

6. Another crucial requirement for SMEs if they are to benefit from a global economy is access to, and capacity to utilise, new technologies. This applies not simply to e-commerce but to technologies related to their core businesses. Technological capabilities vary enormously across T&DEs, but, within a given country, SMEs are often at a technological disadvantage. Frequently, they cannot afford to invest in their own research and development (R&D) or to hire research staff. Collaboration with SMEs in OECD countries (or for that matter, large OECD enterprises) can be a valuable means of keeping abreast of technological and market trends, and also of acquiring advice on implementing new technologies, such as the Internet, and new managerial practices in their operations.

7. Good reliable infrastructure, especially for communications and logistics, is essential for the growth of SMEs. The provision of infrastructure can be extremely expensive, notably in rural areas where the majority of the population still lives in developing economies, if not in transition economies. Traditionally, infrastructure investment has been contingent on foreign aid programmes, though private sector financing has become much more important in the past few decades and its importance is set to grow. This is especially so for telecommunications and electricity, where build-operate-transfer (BOT) arrangements are now commonplace, boosted by utility deregulation in many countries. New communications technologies are making it economical to provide telephone and Internet access even to more remote areas of T&DEs. For example, microwave and satellite links, combined with G3 mobile standards, allow full Web access without huge investments in copper wire fixed-line telecommunications.

8. In addition to finance, startups, whether in OECD countries or T&DEs, require a range of affordable support services, including office space and maintenance, telecommunications and computer facilities and managerial support (procuring permissions and licenses, accounting, marketing, etc.). Business incubators are one approach to outsourcing some or all of these requirements, allowing entrepreneurs to share costly infrastructure and to concentrate on core competencies. Clearly entrepreneurs need to be in control of key managerial functions, but for less critical ones economising on scarce human capital can be attractive.

Policy implications

9. Business people and business associations need to work with governments in T&DEs to improve the business environment, both in general, and more specifically for growth-oriented SMEs and start-ups. How can this be done so as to support policy design and implementation most effectively? The following options and opportunities may be considered:

- Identifying and assessing, through firm surveys among other means, the priority concerns and needs of SMEs and the sort of policy response that may be appropriate.
- Studying ways in which SMEs from abroad can assist indigenous entrepreneurs, and vice versa, and determining whether matchmaking between them could be rendered more effective through public-private initiatives.

- Working with governments and business associations from developed countries to establish suitable, cost-effective support programmes for SME development in the areas of HRD, management, technology and finance.
- Encouraging the adoption of policies to promote stable economic growth.
- Promoting the development of secure and transferable property rights, and the associated administrative processes, registers and institutions.
- Fostering the development of transparent and consistent legal and regulatory systems.

The role of international co-operation in furthering SME integration into the global economy

10. International co-operation is important if T&DEs are to make the best use of the emerging benefits of globalisation, including for their SMEs. A number of areas may be considered particularly useful in this regard:

- Promoting partnership and networking between SMEs in OECD countries and in T&DEs as a means to provide all partners with better access to information, financial and technological resources, support services and new markets.
- Encouraging transnational linkages/networks of SMEs, for example, through matchmaking conferences, electronic matchmaking services, co-operation and information exchange between Chambers of Commerce and bilateral associations.
- Working with major contractors and trading companies across borders to establish or improve standards and identify opportunities for subcontracting, to encourage franchising and licensing, etc.
- Ensuring that SMEs from T&DEs can enjoy equal access to the various electronic exchanges emerging for trade in a range of agricultural and industrial commodities, and that limited Internet access and/or skills do not seriously constrain participation.
- Taking measures systematically to improve conditions for SMEs in the public procurement of OECD countries and T&DEs, and to extend competition policy to new areas, such as electronic commerce.

ISSUES FOR DISCUSSION

11. Access to, and the ability to utilise, new technologies is essential in order to benefit from a global economy. For example, the Internet can facilitate the sharing of technical and market information between OECD and T&DE SMEs. What experiences can participants share in this regard?
12. Business incubators can be an effective means for providing SMEs in T&DEs, as well as in OECD countries, a range of affordable support services. What has been the experience with such incubators in different T&DEs and what lessons can be learned? Are they useful points of contact between domestic SMEs and prospective OECD SME partners?
13. How can governments work with business to tackle the issues identified?
14. What kind of international co-operation is most important to further SME integration into the global economy? In which areas can this be particularly useful and how can it be promoted most effectively?

ANNEX

SURVEY OF BUSINESS REPRESENTATIVES:

Summary of the principal suggestions for policy action, retrieved from the survey of business associations

Impediments *	Suggested policy actions
Difficulty in accessing finance in general	<ul style="list-style-type: none"> • Improving SMEs' access to bank credits by simplifying the credit system. • Bank systems are overly cautious in terms of guarantees and facilitation for investing in emerging countries. • Create preferential credit lines and support the development of credit guarantee systems. • Capital support for existing and newly created local and regional loan guarantee funds.
Lengthy, complex and opaque bureaucratic procedures for registration, finance and permits, etc.	<ul style="list-style-type: none"> • Simplification of procedures. • Create expert groups to investigate ways of reducing red tape and bureaucracy. • Create one-stop shops. • Create a single bureau for administrative procedures, next to the Chambers of Commerce.
Corruption among government officials	<ul style="list-style-type: none"> • Ensure that government officials receive appropriate salaries. • Promote the implementation of the OECD guidelines on bribery and corruption. • Greater transparency at the decision-making level.
Inadequate support structure	<ul style="list-style-type: none"> • Building up of business support networks.
Lack of qualified personnel	<ul style="list-style-type: none"> • Improve training and continuous learning.

* In the order of the impediments most frequently ticked by the respondents.