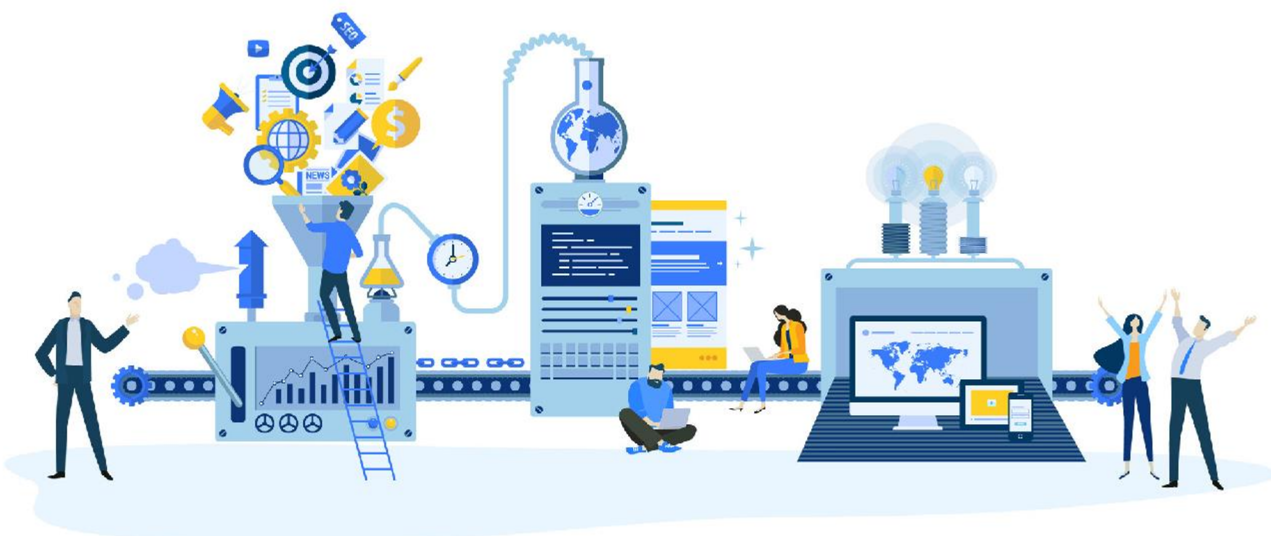
Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Increasing Internationalization of Small and Medium-Sized Enterprises (SMEs) in OIC Member Countries



COMCEC Coordination Office
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ADB	Asian Development Bank
AED	Agency for Enterprise Development
AfDB	African Development Bank
AFTA	ASEAN Free Trade Area
AfTra	The African Trade Fund
AGE	General State Administration
AGF	African Guarantee Fund
AIM	Amanah Ikhtiar Malaysia
AL	Action Lines
AMDIE	The Moroccan Investment and Export Development Agency
ANPME	The National Agency for SME Development
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BEP	Business Export Program
BGK	The State Development Bank
BIC	The Business Information Center
BOI	Bank of Industry
CBN	Central Bank of Nigeria
CCAA	Autonomous Communities
CCO	COMCEC Coordination Office
CEDAR	Center for Entrepreneur Development and Research Sdn Bhd
CGC	Credit Guarantee Corporation Malaysia Berhad
CGEM	The National Confederation of Moroccan Enterprises
CGFs	Credit Guarantee Funds
CIEM	Central Institute for Economic Management
CIM	Co-operative Institute of Malaysia
CNEA	The National Committee for the Business Environment
COMCEC	Committee for Economic and Commercial Cooperation of OIC
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DFI	Development Finance Institution
DFID	The Department for International Development
DTRE	Duty and Tax Remission for Exporter
EAC	East African Community
EAM	Export Acceleration Missions
EAS	The East Asia Summit
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Spanish Export Credit Agency
ECCP	European Cluster Cooperation Platform
EDF	The Export Development Fund
EFS	Export Facilitation Scheme
EOUs	Export Oriented Units
EPB	Export Promotion Bureau
ERAT	Export Readiness Assessment Tool
ERDF	The European Regional Development Fund
ESA	European Space Agency
EU	European Union
EVFTA	EU-Vietnam Free Trade Agreement
FAs	Foreign Affiliates

FBR	the Federal Board of Revenue
FDI	Foreign Direct Investment
FOMAN	National Fund for Modernization
FTAs	Free Trade Agreements
GDP	Gross Domestic Product
GLCs	Government-linked Companies
GLOSMEP	Glocal Linkages SME Program
GSTP	Global System of Trade Preferences among Developing Countries
GTZ	The German Technical Cooperation
GVCs	Global Value Chains
ICE	Integrated Center for Export
ICE	Institute of Business Competitiveness
ICEX	Spain Export and Investment
ICT	Information and Communication Technology
IE	International Entrepreneurial Firms
IFC	The International Finance Corporation
IKM	Cooperative Institute of Malaysia
IMF	International Monetary Fund
INSKEN	National Institute of Entrepreneurship
IPR	Intellectual Property Rights
ISAR	ISAR Corporate Transparency Accounting
ITC	International Trade Center
ITF	Industrial Training Fund
JICA	The Japan International Cooperation Agency
KIAT	Korea Institute for Advancement of Technology
KISED	The Korea Institute of Start-up & Entrepreneurship Development
KKK	Key National Clusters
KOSME	The Korea SMEs and Startups Agency
KOTRA	The Korea Trade-Investment Promotion Agency
KUKE	The Export Credit Insurance Corporation
KVIC	Korea Venture Investment Corporation
LGFs	Local Guarantee Funds
Maroc PME	The National Agency for the Promotion of SMEs
MATRADE	Malaysia External Trade Development Corporation
MB	Manufacturing Bond Rules
MDG	Market Development Grant
MECD	Ministry of Entrepreneur and Cooperatives Development
MED	Ministry of Enterprise Development
MEs	Micro Enterprises
MIC	Ministry of Information and Communications
MIDA	Malaysian Investment Development Authority
MIGA	The Multilateral Investment Guarantee Agency
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
MOET	Ministry of Education and Training
MOIP	Ministry of Industry and Production
MOIT	Ministry of Industry and Trade
MOLISA	Ministry of Labor, Invalids and Social Affairs
MOST	Ministry of Science and Technology
MOST	Ministry of Science and Technology
MOTIE	South Korean Ministry of Trade, Industry and Energy

MPI	Ministry of Planning and Investment
MPI	The Ministry of Planning and Investment
MSMEs	Micro, Small and Medium-Sized Enterprises
MSS	The Ministry of SMEs and Startups
MTCDP	The Medium-Tier Enterprise Development Program
MyIPO	Intellectual Property Corporation of Malaysia
NAFOSTED	National Foundation for Science and Technology Development
NATEC	National Agency for the Development of Technology Entrepreneurship and Comm
NATEC	National Agency for Technology Entrepreneurship and Commercialization
NATIF	The National Technology Innovation Fund
NBS	National Bureau of Statistics
NCC	The National Consultative Committee
NEDEP	National Enterprise Development Program
NEPAD	New Partnership for African Development
NEPC	Nigerian Export Promotion Council
NESDC	National Entrepreneur and SME Development Council
NEXIM	Nigeria Export-Import Bank
NPC	National Planning Commission
NSDC	The National Council for SME Development
NTPP	National Trade Promotion Program
OECD	Organisation for Economic Co-operation and Development
OIC	The Organization of Islamic Cooperation
OLOP	One Local Government One Product
OSC-MECD	One-Stop Center of the Ministry of Entrepreneur and Cooperatives Development
PAIH	The Polish Investment and Trade Agency
PARP	Polish Agency for Enterprise Development
PBT	Local Government License
PERNAS	Perbadanan Nasional Berhad
PFIs	Public Financial Institutions
PNEI	National Pact for Industrial Recovery
PPKV	Vendor Capacity & Capability Development Program
PPP	Public-Private Partnership
PTC	Skills Transfer Platform
R&D	Research and Development
RBV	Resourced-Based View
RCEP	Regional Comprehensive Economic Partnership
RMCD	Royal Malaysian Customs Department
RMCs	Regional Member Countries
RTAs	Regional Trade Agreements
SAAF	SME Asaan Finance
SADC	Southern African Development Community
SATI	State Agency for Technology Innovation
SBA	Small Business Act for Europe
SBC	The Small and Medium Business Corporation
SBDC	Small Business Distribution Center
SBP	State Bank of Pakistan
SBV	State Bank of Vietnam
SCenIc	The SME Central Incentives System
SCORE	The SME Competitiveness Rating for Enhancement
SDGs	Sustainable Development Goals
SECP	Securities and Exchange Commission of Pakistan

SEF	The Services Export Fund
SEZ	Special Economic Zones
SIC	Small Industries Corporation
SKM	Malaysia Co-operative Societies Commission
SME Corp.	SME Corporation Malaysia
SMEDA	Small and Medium Enterprises Development Authority
SMEDAN	The Small and Medium Enterprises Development Agency
SMEDF	The SME Development Fund
SMEEF	The Small and Medium Enterprise Export Facility
SMEIC	APEC SME Innovation Center
SMEIPA	Annual SME Integrated Action Plan
SMEs	Small and Medium-Sized Enterprises
SMIDEC	Small and Medium Industries Development Corporation
SPIN	Informal Financing Scheme
SPS	Sanitary and Phytosanitary
SPX	Sub-contracting and Partnership Exchange
SSM	Business Registration
TACs	Technical Assistance Centers
TBT	Technical Barriers to Trade
TCT	Transaction Cost Theory
TDAP	Trade Development Authority of Pakistan
TIM	Trade and Investment Missions
TiVA	OECD Trade and Value-Added Database
TRIPS	The Agreement on Trade-Related Intellectual Property Rights
TVET	Technical and Vocational Education and Training
UKVFTA	UK-Vietnam Free Trade Agreement
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	The United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VCFTA	Vietnam-Chile Free Trade Area
VDB	Vietnam Development Bank
VDB	Vietnam Development Bank
VIETRADE	Vietnam Trade Promotion Agency
VKFTA	Vietnam-Korea Free Trade Area
WB	World Bank
WBES	World Bank Enterprise Surveys
WTO	World Trade Organization

EXECUTIVE SUMMARY

SMEs account for about 90 percent of all firms and more than 50 percent of all jobs worldwide. Formal SMEs make up about 40 percent of national income in developing countries. These figures are much higher still if informal SMEs are included. According to the World Bank (WB), there are approximately 365-445 million MSMEs in developing countries: 25-30 million are formal SMEs, 55-70 million are formal MEs, and 285-345 million are informal enterprises. Approximately 600 million jobs will be needed by 2030 to absorb the growing global workforce, making SME development a high priority for many governments worldwide. In emerging economies, most formal jobs are created by SMEs, which create 7 out of 10 jobs.

Indeed, SMEs are classified by the United Nations (UN) as one of the key players in achieving the 17 Sustainable Development Goals (SDGs). In this respect, the UN highlights the role of MSMEs in economic activity, in generating employment and income, especially for poor and marginalized groups, as service providers (e.g., in education services, health services, water distribution and sanitation works), and as energy consumers/polluters with an environmental footprint.

According to WB (2020), internationalization of businesses, especially SMEs, has far-reaching developmental impacts, such as higher quality economic growth, better employment opportunities, reduced poverty and improved prosperity.

Many SMEs, however, cannot fully realize their potential often due to several factors stemming from their small size. The challenges faced by SMEs towards exporting are:

(i) Limited resources (skilled labor, market access and information, finance as well as technology);
(ii) Inadequate economies of scale and scope;
(iii) Greater transaction costs compared to large companies;
(iv) Insufficient networks, which can contribute to inadequate information, know-how, and experience with national and global markets;
(v) Increased market competition and concentration by large multinational companies (MNCS) due to global value chains (GVCs) and economic integration;
(vi) Inability to compete with larger companies in terms of research and development (R&D) spending and innovation (products, processes, and organization);
(vii) Significant turnover and instability; and
(viii) A lack of entrepreneurial enthusiasm, aptitude, and proficiency

Internationalization can also offer opportunities that promote the growth of SMEs such as:

(i) The upsurge of niche markets and the importance of individualization;
(ii) Technical advances that have led to discontinuity in production, fragmentation of production, and the emergence of production networks;

(iii) Shortened product life cycles that made flexible production more valuable than production volume;
(iv) Subcontracting opportunities resulting from the growth of the global manufacturing;
(v) Opportunities arising from international retail sourcing;
(vi) The increasing importance of the SME dominated service sector;
(vii) Their reduced red-tape, enhanced flexibility, and capacity to respond to quickly changing customer requests;
(viii) Their innovation capability and capacity to commercialize innovations, particularly in knowledge-intensive sectors;
(ix) Advances in information and communications technology and innovative use of e-commerce to expand market reach, extend networks, access information, and participate in value chains;
(x) Participation in clusters and networks that can expediate access to knowledge spillovers and skilled labor, and achieve economies of scale and scope that would be impossible in isolation;
(xi) Acknowledgement by policymakers, both nationally and internationally, of the vital role of SMEs in economic development, specifically in job creation and poverty reduction.

Scrutinizing the export intensity (exports as a share of total sales) of SMEs for both OIC and non-OIC countries in a comparative perspective suggest that in the non-OIC group, export intensity generally increases with country income for both small and medium enterprises. In contrast, the difference in average export intensity of SMEs between the low-income group and the low-and middle-income group is insignificant.

Analysis on the medium-sized enterprises in the OIC countries indicate that the Arab group has on average, a higher export intensity compared to the African and Asian groups of the OIC. In fact, the medium size enterprises in the Arab group of the OIC export more than the upper middle income group countries. In the OIC region, the export intensity of medium-sized enterprises in the African and Asian groups is similar and significantly lower than in the Arab group.

As expected, the export intensity of small enterprises is much lower compared to the export intensity of medium-sized enterprises around the world. The barriers that small firms face in exporting, such as capacity problems or limited access to finance, as discussed in the previous sections, are much higher than the barriers faced by medium-sized firms. Only small firms in high-income countries have an export intensity of 15 percent on average. The export intensity of small firms in the Arab group of the OIC and middle-income countries is about 10 percent. In the African and Asian regions of the OIC, small firms have a very low export intensity.

SMEs usually consider engaging in internationalization, which necessitates substantial financial and human resource investment, as costly and risky. However, there are many benefits of internationalization to SMEs through access to a broader customer base, more suppliers and new technology exposures. Engaging in exporting extends the market size, provides exposure to international best practices, contributes to learning, helps technology and quality upgrading

(Baldwin and Gu, 2003). The firm-level benefits of SME internationalization are growth and productivity increases, learning by exporting, improved innovation, revenue diversification as well as enhanced capacity utilization and competitiveness.

These within-firm effects lead to several significant within-country effects for the home countries of exporting SMEs. Productivity gains, job creation, knowledge spillover and poverty reduction would be gains from SME exporting for the country.

SME participation in a country's trade plays an important role in achieving sustainable growth and reducing poverty. However, SMEs need support to engage in trade. In the survey conducted by the European Commission (2010), 55 percent of internationally active SMEs indicated that public support plays an important role in their internationalization. In this regard, many international organizations provide either direct support programs for SME internationalization or other support programs aimed at building SME capacity through collaboration with governments. In addition, there are international or regional initiatives that SMEs can take advantage of to internationalize. The major institutions playing key roles are World Trade Organization (WTO), United Nations Conference on Trade and Development (UNCTAD), International Trade Center (ITC), Organisation for Economic Co-operation and Development (OECD), European Commision (EC), African Development Bank (AfDB), and European Bank for Reconstruction and Development (EBRD).

In this study, to learn from the countries' experiences in SME internationalization, country level desk reviews and field visits are conducted. Desk review countries are Nigeria, Pakistan, Poland, South Korea and Vietnam, whereas field visit countries are Malaysia, Morocco and Spain.

Nigeria is in the western part of Africa and is one of the developing countries south of the Sahara. The recent The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)/ National Bureau of Statistics (NBS) MSME survey shows that Nigerian MSMEs contribute almost 50 percent of the country's gross domestic product (GDP) and account for more than 80 percent of employment in the country. There is no doubt that the sector is central to Nigeria's growth and poverty reduction. However, the sector continues to face challenges that ultimately impact the country's growth. Only 3.1 percent of formal MSMEs in Nigeria export their products while informal MSMEs do not engage in exporting. In other words, MSME exporting is a rare activity in Nigeria. Half of the production of informal MSMEs and one fourth of the formal MSMEs are consumed within the same locality.

Since 2003, numerous efforts have been simultaneously underway to promote MSMEs, ranging from the creation of an agency solely responsible for the promotion and development of this sector (SMEDAN), the implementation of the NEDEP (National Enterprise Development Program), the creation of the National and State Councils for MSMEs, the revised National MSME Policy, and other funding opportunities from the Central Bank of Nigeria (CBN) and other development banks. The National Consultative Committee (NCC), which is primarily tasked with overseeing the implementation of the MSME Policy with the goal of catapulting Nigeria's MSMEs to an internationally competitive status, was established in 2012. The National Policy on MSMEs was revised in 2021 with the aim of creating, nurturing and promoting the necessary conditions for the growth and development of MSMEs. Despite the great efforts of the Nigerian government to ensure the development of MSMEs, there are challenges that affect the performance of MSMEs. There are difficulties faced by MSMEs in accessing financial resources to carry out their production, investment and exports. The inability of MSMEs to employ skilled labor because of insufficient financial resources reduces their production and efficiency and prevents their internationalization. The organizational problems resulting from the lack of management skills and experienced manpower is one of the most important difficulties that reduce the internationalization performance of MSMEs. The habit of making short-term investments, where the profits of entrepreneurs do not turn into long-term investments, is also a major obstacle to the development of MSMEs. MSME development is hampered by the inadequate and unstable electricity supply, telecommunications infrastructure, transportation routes, and water supply infrastructure.

Pakistan is the 44th largest economy in the world and ranks 108th in the World Bank's Doing Business Index. Pakistan's economic growth depends largely on its exports. Increasing exports can finance imports, pay down debt and solve the balance of payments problem. A significant 70 percent of Pakistan's exports are made by large companies. SME exports account for 30 percent of Pakistan's total exports. This shows that the share of SMEs in Pakistan's exports is small.

Since 1998, the Pakistani government has been trying to create an institutional structure to ensure the growth and development of SMEs. The National SME Policy 2021 has been prepared to carry out the necessary strategies and studies for the development and growth of SMEs. The Small and Medium Enterprises Development Authority (SMEDA) and the National Coordination Committee have been established to implement the National SME Policy 2021. In addition, simplification of procedures for SMEs and tax exemptions are being implemented by the Federal Board of Revenue (FBR) and financing for SMEs by the State Bank (SBP). Access to finance, the lack of high-quality human resources, the low technological capacity of SMEs as well as the declining security are major hurdles for SMEs in need of internationalization

Poland is a country in Central Europe with a population of over 38 million people. Poland has been an associate member of the European Union (EU) since 1994 and became a full member in 2004. In Poland, SMEs account for 99.8 percent of enterprises, of which MEs have the largest share at 95.2 percent, while SMEs have shares of 4.1 and 0.7 percent, respectively. Polish companies generate a relatively high percentage of their revenues from exports. In 2020, 25 percent of companies' revenues came from the export of goods and services. The weakest results in this regard are achieved by the MEs (5.1 percent), significantly better by small (16 percent), medium (21.4 percent) and large enterprises (26.6 percent).

The international development of Polish SMEs has long been considered an important factor in the country's economic progress. Since the start of the new millennium, both central and regional public administrations have implemented numerous programs to facilitate such expansion, providing both financial and advisory support. In recent years, there has been a renewed focus on developing markets outside the EU due to the growing potential and comparative advantages of Polish industry. However, it must be noted that small companies lag behind medium and large companies in economic cooperation outside the EU. There are lessons learnt from Polish experience: (i) Trade policy has successfully improved the ability of SMEs to manage the fixed costs associated with exports and imports; (ii) the Polish authorities recently reformed the export promotion and investment framework to provide more assistance to Polish companies expanding into foreign markets. To provide direct on-the-ground support, the Polish Investment and Trade Agency (PAIH) maintains a network of foreign trade offices that focus primarily on distant markets with rapid growth potential for Polish exporters and investors.

South Korea, which ranks 10th among the world's largest economies and 4th in Asia in 2022, is known for its extraordinary rise from one of the world's poorest countries to an advanced, high-income nation in just one generation. South Korea ranks seventh in goods exports and ninth in goods imports in the World. In 2020 trade constituted around 70 percent of its GDP. SMEs play a crucial role in the Korean economy. SMEs constitute 99.9 percent of all enterprises and 82.7 percent of all employment.

According to the export data, 805 large firms accounted for 66.6 percent of exports in 2018 (only 0.8 percent of all exporting firms). Just over 2,000 medium-sized enterprises, accounting for 2 percent of all exporting firms, accounted for 16.3 percent of Korea's exports. Finally, although small enterprises make up the majority of firms (97.2 percent), their export share was only 17.1 percent in 2018.

In the 2000s, the focus of SME support policies shifted from direct support to indirect support measures. While direct support generally refers to financial support, indirect support generally refers to the provision of training, education and information, support for international marketing, etc. Since then, the Korean economy has been globalized through the conclusion of free trade agreements (FTAs) with the US, EU and China, and the Korean government began to focus on internationalization policies for SMEs. However, the focus of SME policy remains on strengthening export competitiveness.

One of the most important lessons to be learned from the Korean example is that the country has succeeded in fostering the will and attitude to export among SMEs through various programs. For example, KOTRA operates, among others, the KOTRA Academy, which provides information, education and training related to international business. The individual curriculums of these academies vary from organization to organization, but their programs range from training for SMEs not yet engaged in international business to specialized training courses for those already engaged in international business. Marketing based on ICT is the best way to overcome one of the biggest obstacles to SME internationalization, which is geographical distance. Another lesson from the recent Korean experience is the government's active promotion of local SMEs to create a common brand and common production system and help them list their products on the global e-commerce platform.

Vietnam is a country in Southeast Asia, located in one of the earliest agricultural centers. Export promotion and foreign direct investment (FDI) have made Vietnam's economy one of the fastest growing in the world over the past 20 years. GDP per capita increased 3.6 times between 2002 and 2021, reaching nearly $3,700. Vietnam's exports experienced near-exponential growth after joining the WTO on January 11, 2007, reaching nearly $300 billion in 2020. SMEs account for 97.4 percent of the total number of enterprises in Vietnam in 2019. SMEs account for a large share of the total number of exporting enterprises (88 percent). On the other hand, they account for only 19 percent of employment in exporting enterprises. As for the volume of exports, SME exports account for 50 percent of the export volume. It is worth noting here that 70 percent of Vietnam's SME exports come from foreign-owned SMEs that have established themselves in Vietnam to be closer to MNCs, which act as their main customers.

The first measures to promote SMEs and entrepreneurship in Vietnam date back to the early 2000s. A 2001 national law introduced the legal definition of an SME and established the SME Development Agency, which has since become the Agency for Enterprise Development (AED) under the Ministry of Planning and Investment (MPI). With the broad and deep integration of the Vietnamese economy into the global economy through FTAs, the Vietnamese government introduced new measures to support SMEs. One of the most recent and comprehensive attempts, the Law on Support for SMEs, introduced in 2018, touches on various policy areas such as access to finance, taxation, innovation, and value chain (OECD, 2021). Lessons learnt from Vietnam's SME internationalization experience are: (i) FTAs are key to the excessive growth of exports and FDI in Vietnam; (ii) Vietnam has significantly reduced its corporate tax rate and is considering a preferential tax regime for SMEs; (iii) the government does a good job of monitoring policies, which increases policy effectiveness; (iv) the government promotes business development services that are non-financial and aim to improve the ability of businesses to compete in international markets through mentoring; (v) the government has established the Vietnam Trade Promotion Agency (VIETRADE), which actively supports SME export activities through the Support to Trade Promotion and Export in Vietnam program.

Since independence in 1957, **Malaysia** has experienced strong and sustained growth (6.5 percent per year), except for periods such as the Asian financial crisis in 1997, the global financial crisis in 2008, and, more recently, the COVID-19 pandemic in 2020. More than 97 percent of enterprises in Malaysia are MSMEs. Among MSMEs, 78.6 percent are MEs with less than 5 employees or sales of less than 300 thousand RM, while medium-sized enterprises account for only about 1.6 percent of MSMEs. In Malaysia, MSME exports were worth RM124.3 billion in 2021, an increase of 5.4 percent driven by the manufacturing sector (16.7%) and the agriculture sector (20.4%).

The institutional history of SMEs dates to 1996, when a specialized agency called the Small and Medium Industries Development Corporation (SMIDEC) was established under the Ministry of International Trade and Industry (MITI. The National Council for SME Development (NSDC) was established in 2004 as the highest policy body. SMIDEC assumed the role of secretariat of NSDC in 2008 and was renamed SME Corporation Malaysia (SME Corp. Malaysia) in 2009. The focus of the institution was placed on entrepreneurship development. In addition, the SME Corp. was given the role of the Central Coordinating Agency (CCA) for overall SME development to coordinate, streamline, monitor, and evaluate the progress and effectiveness of SME development programs implemented by 15 ministries and more than 60 agencies annually and published as the Annual SME Integrated Action Plan (SMEIPA).

There are various lessons learnt from Malaysian experience: (i) Government prioritize SME internationalization which contribute to the increase in exports of SMEs. There is an annual growth target for SME exports in the macro plans as well as a target for SME contribution to exports; (ii) In Malaysia, SMEs are encouraged to apply for the SME Competitiveness Rating for Enhancement (SCORE) rating, provided by SME Corp. Malaysia, to be eligible for most support programs. A score of 4 and 5 indicates that the company is ready for export. The government agencies and institutions that support SME internationalization invite the export-ready companies to apply for relevant programs; (iii) ERAT is another rating conducted by Malaysia External Trade Development Corporation (MATRADE) to test export readiness. (iv) There are many specialized programs offered and conducted each year by 15 ministries and more than 60 agencies covering underserved SMEs. Some of the programs offer capacity building only, while others offer financing to enter the global market as needed; (iv) Malaysia conducts an impact assessment for each program, which allows it to improve the internationalization of SMEs each year. However, the impact assessment is not publicly available; (v) Most ministries and agencies that offer programs to support SMEs have introduced online application systems and services for SMEs. Digitization has made the programs more accessible and available to everyone in Malaysia.

Morocco has taken advantage of its proximity to Europe and relatively low labor costs to develop an open market economy. The country is a member of the Arab League, the Union for the Mediterranean and the African Union. Morocco is the fifth largest economy in Africa and has significant economic influence in both Africa and the Arab world

In Morocco, nearly 96.5 percent of businesses generate revenues of less than 10 million dirhams. In 2019, MEs with revenues between 0 and 1 million dirhams accounted for 84.4 percent of total enterprises. For companies with a turnover between 1 and 3 million dirhams, this percentage is limited to 7.5 percent. In 2019, the cumulative export turnover of companies in Morocco amounted to 306 billion dirhams, of which 73.6% was generated by large companies and 26.4% by MSMEs.

The foundations of the institutional framework for SMEs in Morocco date back to the creation of the National Agency for the Promotion of Small and Medium Enterprises. In 2006, the National Fund for Modernization –FOMAN was established, and in 2008, a contract was initiated for a government program to modernize and support business competitiveness. In fact, SME policy is driven by the national economic development agenda. In this regard, the role of overseeing SME policy is performed by the Ministry of Industry, Investment, Trade and Digital Economy through two development strategies: the National Pact for Industrial Recovery (PNEI) for 2009-2015 and the Industrial Acceleration Plan for 2014-2020 (extended to 2023 due to Covid-19).

The major lessons learnt from Moroccan experience: (i) In Morocco, there are active cooperatives. In other words, SMEs that produce similar products work together. These cooperatives, exporting together, benefit from economies of scale. They achieve cheaper logistics and better trade information. (ii) There is large FDI in Morocco, especially in the automotive sector. Over time, these multinationals support the capacity of their value chain. As a result, SMEs in the multinationals' supply chain become more competitive.

Spain's economy, after the Spanish Civil War in 1939 until 2008, the economy made great strides, especially between 1959 and 1974. Throughout these 15 years, Spain experienced a rapid economic upturn and unparalleled economic growth that became known as the "Spanish Miracle." Spain has one of the most open and global economies in Europe. It also has a strategic economic position in regard to Latin America and North Africa. Foreign firms getting into partnerships with local companies gain excellent opportunities to enter other markets. In this environment, the Spanish firms are exceptionally internationalized: Today, Spain is home to nearly 3 million SMEs, many of which are exporters to a diverse set of countries around the globe.

In Spain, SMEs account for 99.9 percent of enterprises in June 2022, of which about 55 percent are SMEs without employees. Among SMEs with employees, MEs have the largest share at 86 percent, while SMEs have shares of 12 and 2 percent, respectively. In terms of economic size, Spanish SMEs account for almost 57 percent of value added and 69 percent of total business employment.

In general, SMEs have contributed positively to the growth of total exports since the recovery of world trade starting in 2009, although this contribution has been less significant than that of large firms. This increase in SMEs' contribution to export growth is mainly based on the extensive margin (number of exporting firms), while their contribution to the intensive margin (export volume per unit) is small.

In Spain, the importance of SMEs is clearly reflected in the Agenda for Change, which aims to guide government action in line with the reforms envisaged in the UN 2030 Agenda for Sustainable Development, and includes such important measures as the promotion of the Spanish innovation ecosystem and support for SMEs, as well as the inclusion of the fight against the gender gap, the demographic challenge, the promotion of SMEs or startups, and innovative public procurement in tenders for public competitions (MITT, 2019).

The Strategic Framework for SMEs is an instrument at the service of SMEs that sets the policy framework for action by Spanish public administrations in the field of SMEs in the long term. It consists of a set of recommendations divided into seven levers or areas of action that are considered strategic in any policy that focuses on SMEs. All this in coordination with the different plans and strategies, either sectoral or more cross-cutting, both from the general state administration and from the autonomous communities (CCAA) and local authorities.

Spain would be a role model for other countries that are in the process of developing or redesigning their SME internationalization programs in terms of the design and implementation of the framework. The Spanish government's current programs to support the internationalization of SMEs can be commended for being part of a broader growth and development strategy, with the intention of coordinating different parts of the government to achieve a common goal.

The Spanish experience of SME internationalization shows that engaging in global markets requires a certain level of professionalism in management, which is a necessary but not sufficient condition. There is a direct correlation between leadership ability, foreign language skills, college degrees, previous stays abroad and the outcome of internationalization. This means that human resources are an important factor to consider in the internationalization of SMEs. The decline of Spanish exporting companies during the global financial crisis and the COVID-19 pandemic has shown that the economic crisis brings serious obstacles to internationalization. The resilience that is urgently needed in these circumstances must be built by SMEs into their own business systems.

To obtain information on the barriers to SME internalization, the measures to overcome these barriers, and their impact, we conducted a survey of OIC member states. Since the measures are designed by government institutions and used by firms, we prepared different questionnaires for firms and government institutions. In this way, we can find out how the firms and institutions perceive the obstacles and how the measures affect the companies' exports.

The survey was then published online in four languages: Arabic, English, French, and Turkish. We sent emails to 3833 companies and 1069 government institutions inviting them to participate in the survey. As of August 1, 2022, the deadline for participation, 36 firms and 19 government entities (55 in total) have responded to the survey.

The survey results suggest most export firms use business partners to reach target markets. International market information portals, business websites, and business associations are the other most frequently used channels. An important finding for exporters is the low percentage of government channels. When we compare exporters and non-exporters, we find that the ranking of channels is different. In this regard, the creation of platforms for the exchange of experiences between exporters and non-exporters is an important policy implication.

There is a large difference between exporters and non-exporters in their perception of internal barriers. The average score of exporters is significantly higher than non- exporters which states that barriers became higher with the realization of exporting activity. In terms of main barriers, for both exporter and non-exporter firms, financial barriers are the most important barriers. However, while information barriers are the second most important barrier for exporters, product and price barriers are the second most important barrier for non- exporters. This is to be expected since exporters have already achieved the quality of their products required for export. The third important main barrier for exporters is distribution and logistics barriers, and the sub-barrier is excessive transportation and insurance costs. On the other hand, the third important main barrier for non-exporters is information barriers.

Unlike the internal barriers, the perception of external barriers is similar for exporters and non-exporters. For both groups of firms, government barriers within their own country are the most important barriers. In this regard, policies to support exports are particularly important for both exporting and non-exporting firms. The second main important barrier is tariff and non-tariff barriers. In particular, the "high cost of customs administration in host countries" is the second most important sub-barrier for non- exporters and the third most important sub-barrier for exporters.

The participating firms indicated that the most important barrier is the lack of funding. Malaysia, Benin, and Turkey have financial systems that offer many alternative instruments to firms. Iraq, Burkina Faso, and Guinea, on the other hand, need to improve the number of available financial instruments. Complicated procedures and high interest rates are the obstacles mentioned by most companies. In addition, the requirement for collateral is also an inhibiting factor. Easing borrowing procedures, providing credit at low cost, especially through public banks, and using credit guarantee funds (CGFs) could be immediate and effective policy measures to overcome these obstacles.

To obtain detailed information about the programs implemented by the institutions, we asked a series of questions. Programs are mostly aimed at providing market information. Expert advice and participation in trade fairs/exhibitions are the other most frequently implemented programs. On the other hand, branding programs were implemented to a limited extent in the member countries.

The survey also asks about the key outcomes of the monitoring and/or evaluation processes. More than half of the institutions indicated that the program needs to be better publicized. This is consistent with responses from companies that indicated they were unaware of the programs. Another finding from the monitoring/evaluation of the programs is the need to simplify the application process. This was also cited by firms as an important barrier to exporting.

We asked participants about the available SME financing measures in their countries. The results suggest that SME financial literacy policies are present in all countries. The second most popular policy is the creation of specialized financial institutions for SMEs and is available in 10 different countries. This is important because the participating companies indicated this as the most important policy. We also rank countries by the number of SME finance measures available. Malaysia and Bangladesh are the most successful countries; all measures are available in these countries. Turkey, Burkina Faso, and Palestine need to increase the number of SME financing measures available.

Based on all these analyses, this study provides the necessary information or required steps for the effective development and implementation of SME internationalization programs and initiatives at the national level. There are two types of basic information:

1. **Principles,** which identify and summarize the requirements for successful SME internationalization in the following three main categories:

a. Development phase of programs/initiatives for SME internationalization
b. Implementation of programs/initiatives for SME internationalization
c. Evaluation of programs/initiatives for the internationalization of SMEs

2. **Recommendations**, which are intended not only to support the proposed principles, but also to enable Member States to recognize the different modalities or practices in different OIC and non-OIC countries with respect to each standard.

1 INTRODUCTION

Globalization has entered a new era after 1990 due to radical changes in communication technology. While it is not difficult to see how the information and communication technology (ICT) revolution has changed globalization, some contextual information is needed to thoroughly understand the progress.

In the early 19th century, there was the invention and adaptation of steam power, which coincided with a relatively peaceful era in the world. Both together lowered the cost of transporting goods across borders, and so globalization made its first great leap. The second great leap was triggered by revolutionary changes in ICT that lowered the cost of exchanging ideas across national borders (Baldwin, 2018).

The first great wave of globalization, which began in the early 19th century, was set in motion by falling trade costs. The resulting trade, industrialization, and economic growth led to a change in the roles of the world's old and new civilizations. The four millennia of economic dominance by Asia and the Middle East were ended in just two centuries and replaced by today's advanced economies. Historians call this the "Great Divergence," in which power structures at all levels of social life changed and consolidated in the hands of a few countries.

From 1990 on, the trend reversed. The rise of rich nations, which had lasted over a century, was reversed in just two decades. Baldwin (2018) calls this the "Great Convergence" and claims it is the most important economic fact of the last 30 years. It is the reason for recent calls for protectionism in wealthy nations and for the new self-confidence of developing economies.

This new wave of globalization that has taken place over the last 30 years has created both new opportunities and new challenges for SMEs. Their reduced bureaucracy, greater flexibility, and rapid response to instantly changing customer needs and technologies, as well as their innovativeness and ability to introduce and market innovations, are among their key strengths in this new era of globalization. In addition, the increasing importance of the service sector (dominated by SMEs) due to rising prosperity in developing countries and post-industrial societies, as well as in low-income developing countries, and shortened product life cycles, which have made flexible production more important than production volume, are among the most important opportunities for SMEs.

However, there are significant challenges to turning these opportunities into reality. Although SMEs face many obstacles and capacity constraints due to their small size, their sheer numbers continue to make them critical to economic growth and job creation in almost every country in the world. There is no doubt that this new era of hyperglobalization, as described by Rodrik (2011), presents unique challenges for these companies. To survive in this cut-throat competition, SMEs need novel business strategies based on today's requirements, such as timely acquisition of knowledge and skills, catching up with technological advances, modernization, and wealth creation. If SMEs are not equipped with these characteristics, it would be extremely difficult for them to participate in regional and global production networks (ADB, 2015).

This chapter first provides a comprehensive overview of the nature, determinants, and importance of SME internationalization. After a brief discussion of the potential opportunities and challenges for SMEs in participating in global markets, the chapter continues with recent trends in SME internationalization in OIC countries. Finally, the benefits and the tools and initiatives of SME internationalization are presented.

1.1 Conceptual Framework of SME Internationalization

1.1.1 SME Internationalization and Its Determinants

What is an SME?

The abbreviation SME evokes in people's minds the image of companies that are not large. They may be small or medium-sized. But "What is small? What is medium-sized?" changes from country to country, from jurisdiction to jurisdiction. In most cases, this generic term is not precisely defined, i.e., no upper or lower size limits are set. In addition, there is the abbreviation MSME, micro, small and medium-sized enterprises. This refers to the smallest of the firms designated as MEs.

Since there is no universal definition of "micro," "small," and "medium" enterprises, national governments and international organizations usually set thresholds for the number of employees and/or annual sales. The WTO (2016) notes that in some cases there are sector-specific thresholds, which further complicates country-specific comparisons. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) use a standard definition that states that "an enterprise is considered a micro, small, or medium enterprise if it meets two of the three criteria in the definition from IFC MSME (employees, assets, and turnover)" (see Table 1.1).

Table 1.1. IFC Definition of Micro, Small and Medium Enterprises

	IFC MSME Definition		
	Employee #	Total Assets $	Annual Sales $
Micro enterprise	<10	<100K	<100K
Small enterprise	10-49	100K-3M	100K-3M
Medium enterprise	50-300	3M-15M	3M-15M

Source: *International Finance Corporation*
https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors

This report will follow the usual approach of using the abbreviation "SME" as a generic term. A distinction between SMEs and MSMEs, with the former term excluding MEs and the latter including them, will be made only when precise definitions are needed.

What is SME Internationalization?

SMEs internationalize in many ways among which are direct exporting, indirect exporting, importing, engagement in GVC activities, FDI, strategic alliances and joint ventures as well as licensing and franchising (See Figure 1.1).

Figure 1.1. Means of SME Internationalization

Note: *Authors' own elaboration*

Direct Exporting. The SME sends its products directly to the foreign market, whether to distributors or sales agents in that country or to the firm's final customer. The SME chooses its own foreign markets and agents. Compared to other forms of internationalization, direct exporting generally offers the greatest control over the relationship with the foreign customer and the associated collection of customer and market information.

Indirect Exporting. The SME assigns both the management of customer relations and export procedures to an intermediary that is not based in the country of sale. These intermediaries are usually export management firms. In other words, indirect exporting means that the SME exercises no control over its products in the export market and which foreign markets to target. Therefore, it learns little about the process of selling and doing business abroad.

Importing. The SME finds a foreign supplier and takes the necessary measures to obtain the goods from the foreign trade partner. These goods can be intermediate products (e.g., raw materials) or capital goods (e.g., machinery and equipment) and used in the SME's production of final products.

Engagement in GVCs. The SME sells either directly or as a second, third, or fourth tier supplier to a large company that has a presence in the SME's home market. This way the SME becomes a part of the global value chain of a bigger company. More often not this large company is MNCs whose output is not only supplied in the home market of the SME but also exported to world markets.

Foreign Direct Investment. Inward FDI is a foreign firm's taking a partial stake in a domestic SME, acquisition of the SME outright, or establishment of a wholly owned subsidiary. An SME may also establish overseas production or distribution organizations to expand its production or distribution capacity, which is called outward FDI.

Strategic Alliances and Joint Ventures. If firms from different countries intended to promote growth form a cooperative agreement between themselves, that is called a cross-border strategic alliance. These affairs necessitate broader partnerships and pooling of resources than is possible in less cooperative relationships. Among these alliances involve shared technology and research, collaborative product development, shared risk and reward distribution agreements, or conglomerates for market entry and/or joint distribution.

Licensing and Franchising. In sectors such as information technology, entertainment, and manufacturing, SMEs can internationalize through licensing. In this process, the SME (the 'licensor') gives limited privileges or resources to a foreign company (the 'licensee') to manufacture and sell the SME's product in one or more specific markets for a specified period. Franchising is a variation on this theme in industries such as restaurants, hospitality, and retail. As with the licensing model, the SME (the franchisor) lacks direct control over operations or sales in the foreign market, but instead transfers those rights to companies in the foreign market (the franchisees).

A Brief Review of SME Internationalization Theories

Many scholars and governments now agree that a better understanding of the internationalization of SMEs, especially those from developing countries, is important both to promote the growth of these firms (Filatotchev, Liu, Buck, and Wright, 2009; Bianchi and Wickramasekera, 2016; González, 2017) and to maintain the vibrancy of the economies in these countries (Gripsrud, 1990; Leonidou et al., 1998; Bianchi & Garcia, 2007; Ibeh and Kasem, 2011; Tan et al., 2018). In this context, the reduction of trade barriers combined with upgraded/lower-cost cross-border transportation facilitates access to international markets, thus promoting the internationalization of SMEs (Wright and Etemad, 2001; Olejnik and Swoboda, 2012).

Dabić et al. (2020) trace the debate on SME internationalization back more than 40 years (Bilkey and Tesar, 1977) and provide an excellent overview, concluding that six key theories dominate this literature:

The Uppsala Model. This model (Johanson & Vahlne, 1977, 1990) assumes that the internationalization of the firm is a slow, stepwise and progressive process. As companies learn more about a specific foreign market, they get more involved and invest more resources in that market. The seminal work of Johanson and Wiedersheim-Paul (1975) classifies the lack of familiarity and/or resources and the subsequent uncertainty as the main obstacle to internationalization.

Born Global. As opposed to the Uppsala Model, models of speedy internationalization-including the literature on "born global", "born regional", and "international startups" (Çavusgil and Knight, 2015; Madsen and Servais, 1997; Rialp et al., 2005) assert that many companies do not follow a staged approach but begin their cross-border activities at an early stage. However, a combination of hardships of globalization, local market settings, and technological advances may force SMEs to adapt to sudden changes in haste and to be less able to make a conscious and stable decision (Dana, 2001).

The Network Theory. This theory attempts to understand the bootstrapping capacities of entrepreneurs and SMEs in terms of "strategic alliances and joint ventures" (Dabić and Bach, 2008; Ratten et al., 2007) and "social capital" as a means for growth and success (Musteen et al., 2014).

Transaction Cost Theory (TCT). This theory is employed in explaining SMEs internationalization as well (Ruzzier et al. 2006). The main vein of inquiry is looking at both the precursors and results of the decision to internationalize in response to "market failures" (Brouthers and Nakos 2004). The relationship between MNCs and SMEs with the impasse of collaborating or being absorbed is a key aspect examined in such papers (Mangematin et al. 2003). The other internationalization theories also refer to the firm's response to market failures, however, in TCT the unit of analysis is different. It is the transaction itself rather than the firm.

Entrepreneurial Theory. This theory notes that, "explanations for the emergence and growth of international entrepreneurial firms (IE) have largely focused on the resource-based view and the network perspective. While these approaches are useful, we believe that IE would benefit significantly from a greater emphasis on its 'international nature.' Thus, theories of IE should be used in conjunction with other approaches (Young et al., 2003, p.31)."

Resourced-Based View (RBV). This theory is used to rationalize SMEs internationalization by exploring the resources and characteristics that SMEs can use to successfully go abroad or operate globally (Wernerfelt 1984; Barney 1991). In addition, the RBV has also been gaining importance as a suitable theoretical framework for the study of exporting behavior (Fahy et al., 2005). According to the RBV, an SME's resources and skills are foundations of competitive advantage (Peng, 2001). In addition, firms that have unique collections and mixtures of resource holdings may have a higher propensity to internationalize (Bloodgood et al., 1996). Small SMEs with international operations, for example, may have limited resources and skills due to their size (Wright et al., 2005).

1.1.2 Importance of SME Internationalization from a Developmental Perspective

The significance of SMEs in the economic development of countries (Chung et al., 2008; Liu et al., 2008; Okpara, 2009) is recognized abundantly by the literature. SMEs are responsible for a significant portion of economic growth and job creation in both developing and developed countries (Lyon et al., 2000; Robu, 2013). Moreover, researchers acknowledge that supporting these enterprises is a "key strategy for national development and competitiveness" of developing countries (Kazem and van der Heijden, 2006; Mourougane, 2012).

This recognition of importance stems from the central role that SMEs play in terms of the number of enterprises, job creation, output growth, export growth, participation in global trade relations, poverty alleviation, economic empowerment, and broader wealth distribution. New ventures and young enterprises, which are usually small or micro, are the main source of net job creation in almost all countries and the "locomotive for innovation and sustainability" in the private sector.

SMEs account for about 90 percent of all firms and more than 50 percent of all jobs worldwide. Formal SMEs make up about 40 percent of national income (GDP) in developing countries. These figures are much higher still if informal SMEs are included. According to the WB[1], there are approximately 365-445 million MSMEs in developing countries: 25-30 million are formal SMEs, 55-70 million are formal MEs, and 285-345 million are informal enterprises. Approximately 600 million jobs will be needed by 2030 to absorb the growing global workforce, making SME development a high priority for many governments worldwide. In emerging economies, most formal jobs are created by SMEs, which create 7 out of 10 jobs.

Indeed, SMEs are classified by the UN as one of the key players in achieving the 17 SDGs. In this respect, the UN highlights the role of MSMEs in economic activity, in generating employment and income, especially for poor and marginalized groups, as service providers (e.g., in education services, health services, water distribution and sanitation works), and as energy consumers/polluters with an environmental footprint.

Admittedly, the SDG targets are impressive and necessitate nothing less than a revolution in public and private activities. This revolution involves the adaptation of new business models, the introduction of new innovations/technologies, and a different way of doing business, which opens new business opportunities for the private sector in general and MSMEs in particular. According to UN DESA (2020), "sustainable business models" could open up $12 trillion worth of economic opportunities and create 380 million jobs by 2030, with more than 50 percent located in developing countries.[2]

[1] https://www.worldbank.org/en/topic/smefinance

[2] See UN DESA (2020) for detailed information.

SMEs as an Integral Part of National Development Policy

Why should governments intervene to help their SMEs? Two motivations come to mind for government intervention and support. One is the conviction that SME support will recuperate income distribution, although there is no agreement in literature that having a large number of SMEs necessarily alleviates poverty or reduces income inequality. The second includes the view that some SMEs are affected more severely by market failures, thereby necessitating public intervention (WTO, 2016).

According to WB (2020), internationalization of businesses, especially SMEs, has far-reaching developmental impacts, such as higher quality economic growth, better employment opportunities, reduced poverty and improved prosperity.

First, hyper-specialization and long-lasting relationships among firms encourage efficient production and transmission of technology, along with gaining access to necessary capital and better suited inputs along supply chains. This, in turn, results in productivity and income growth.

Second, whether and how countries engage in SME internationalization matters for development. Countries experience the largest growth spurt during the transition of their SMEs from extractive to manufacturing industries, particularly in their activities on GVCs.

Third, through economies of scale resulting from higher productivity and expanded output, SME internationalization leads to more productive jobs. Because it boosts income and productive employment, a higher level of SME internationalization is associated with reduced poverty rates.

SMEs as a Part of Trade Related International, Regional or Bilateral Commitments

What are the reasons for countries to cooperate in the area of SMEs and especially in the context of trade agreements?

In the literature on trade agreements, there are currently at least three explanations for why countries should cooperate on trade policy: Avoiding trade wars (Bagwell and Staiger, 2003); providing the means to overcome domestic resistance to trade reform among weak governments (Maggi and Rodriguez-Clare, 1998); and reducing the coordination problem (Hoekman, 2014). Work examining the impact of firm heterogeneity on trade policy and international trade cooperation (Demidova and Rodriguez-Clare, 2009; Felbermayr et al., 2013; Costinot et al. 2015) can also shed light on why countries include SMEs in trade agreements.

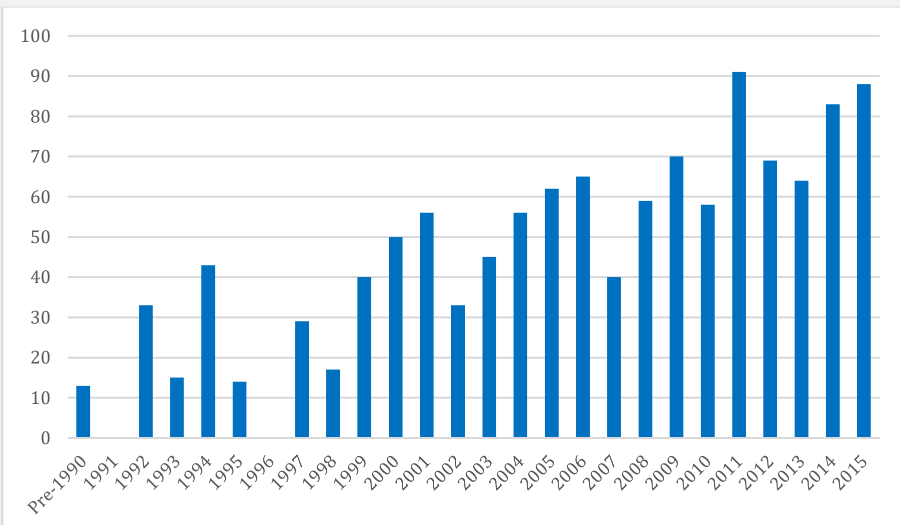
The singular condition of SMEs is recognized and spoken about in several WTO agreements, plurilateral agreements, and work programs. In the contexts of anti-dumping, subsidies and countervailing measures, the Agreement on Trade-Related Intellectual Property Rights (TRIPS), trade finance, government procurement, development and capacity building, SMEs are considered in depth by the WTO.

SMEs can benefit from trade agreements, including regional trade agreements (RTAs), through reductions or elimination tariff and non-tariff barriers, simplification of customs procedures, promotion of e-commerce, and increase in the transparency of trade-related domestic regulations. However, the literature does not specify the various approaches used to explicitly address SMEs in RTAs.

According to WTO (2016), there has been a steady rise in the number of RTAs with SME-related provisions since the late 1990s. In 2016, 136 RTAs, or half of all notified RTAs, contained at least one provision openly citing SMEs. This trend reflects the expansion of RTAs over the past 25 years, both in number and scope.

As shown in Figure 1.2, the percentage of RTAs containing SME-related provisions has been trending upward, to the point where provisions on SMEs are included in nearly 80 percent of all RTAs enacted between 2011 and 2015. This trend is consistent with the snowballing discussions in the policy schedule of many regional and multilateral institutions on SME participation in international trade.

Figure 1.2. Evolution of RTAs with Provisions Explicitly Mentioning SMEs

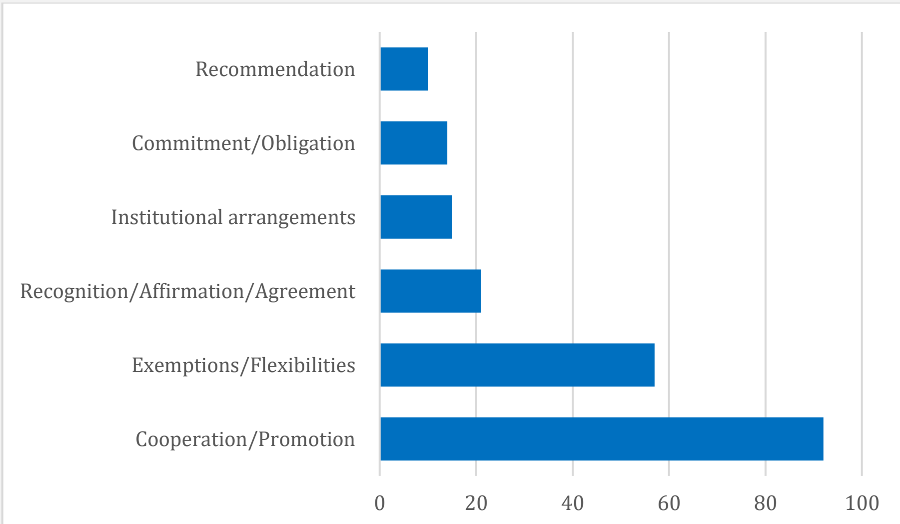


Note: *Authors' elaboration.*
Data Source: *WTO (2016, p.117)*

Despite the great heterogeneity that characterizes most SME-related provisions, the comparative analysis of the 136 RTAs with provisions that explicitly refer to SMEs -conducted by WTO (2016)- helps identifying eight main types of provisions. As illustrated in Figure 1.3, there is a wider in SME-related provisions from recognition of the important role of SMEs to cooperation measures to more stringent obligations and exemptions. Cooperation is the most common form of SME-related provisions included in 92 agreements. The second most common form of SME-related provision, found in 57 RTAs, is that SMEs or national programs supporting

SMEs are either not covered by, or are deemed to be consistent with, the obligations set out in the RTA.

Figure 1.3. Main Forms of SME-Related Provisions in RTAs



Note: *Authors' elaboration.*
Data Source*: WTO (2016, p.120)*

1.1.3 Challenges and Opportunities

The IADB (2014) identifies five dynamics that drive the challenges and opportunities of SME internationalization:

Globalization. Liberalization of trade and investment, lower trade costs, and the emergence of GVCs have noticeably increased opportunities for developing country firms to internationalize in recent decades. Simultaneously, globalization has led to increased competition in both foreign and domestic markets: Developing country SMEs now compete directly with firms from numerous other emerging and industrialized countries.

Multinationalization. International production and sourcing by more than 80,000 MNCs across the globe have expanded remarkably. In 2012, developing countries attracted more FDI than developed countries for the first time. This shift in patterns of trade and production has greatly expanded opportunities for SMEs from emerging economies to participate as suppliers in GVCs. Together, MNCs are also demanding business partners, requiring on-time quality and compliance with comprehensive international principles from their suppliers.

Rise of the Global Middle Class. Global consumption has grown at a remarkable rate and is expected to double in the next decade. The ascent of some 2 billion people to middle-class in emerging markets provides developing countries with a wide range of affluent customers to serve, including intra-regional markets. Simultaneously, the rise of the global consumer presents unprecedented strategic and operational challenges for companies seeking to capitalize on these enormous opportunities.

Digitization. Internet usage growth is particularly high in developing countries. The end of the digital divide is paving the way for even the smallest businesses of these countries to unprecedented opportunities to find new customers, appeal buyers, source inputs and services from abroad, and promote and sell globally -all at lower cost. However, e-commerce type internationalization does not make the traditional requirements of commerce obsolete. These include the necessity to localize, overcome language barriers, and stand out from the crowd as a reliable, high-quality supplier.

The Certainty of Uncertainty. The world economy is full of uncertainty. After hitting a glass ceiling during the Great Recession and COVID-19 Crisis, globalization today continued to advance. However, there are worries of weak growth forecasts in developed countries, credit bubbles and economic slowdowns in leading developing countries, and fears of a future full of currency wars and protectionist agendas that would negate the gains of liberalization in the past seven decades. As all nations compete for an advantage in global markets, the already intense competition will escalate even further.

Against this background, challenges and opportunities meticulously laid out by ADB (2015) can be summarized as follows:

SMEs' Challenges

Many SMEs cannot fully realize their potential often due to several factors stemming from their small size:

(ix) Limited resources (skilled labor, market access and information, finance as well as technology);
(x) Inadequate economies of scale and scope;
(xi) Greater transaction costs compared to large companies;
(xii) Insufficient networks, which can contribute to inadequate information, know-how, and experience with national and global markets;
(xiii) Increased market competition and concentration by large MNCs due to GVCs and economic integration;
(xiv) Inability to compete with larger companies in terms of R&D spending and innovation (products, processes, and organization);
(xv) Significant turnover and instability; and
(xvi) A lack of entrepreneurial enthusiasm, aptitude, and proficiency.

Furthermore, many small enterprises face a competitive disadvantage due to their geographic isolation. Despite these significant obstacles, many economies continue to rely heavily on SMEs, especially for job creation. Notwithstanding their apparent weaknesses, SMEs have not disappeared in the wake of globalization and regional integration. Rather, their role and contribution have changed and evolved, so that many of them remain globally competitive and collectively represent an important source of job creation.

SMEs' Opportunities

Globalization and regional integration can also offer opportunities that promote the growth of SMEs such as:

(xii) The upsurge of niche markets and the importance of individualization;
(xiii) Technical advances that have led to discontinuity in production, fragmentation of production, and the emergence of production networks;
(xiv) Shortened product life cycles that made flexible production more valuable than production volume;
(xv) Subcontracting opportunities resulting from the growth of the global manufacturing;
(xvi) Opportunities arising from international retail sourcing;
(xvii) The increasing importance of the SME dominated service sector;
(xviii) Their reduced red-tape, enhanced flexibility, and capacity to respond to quickly changing customer requests;
(xix) Their innovation capability and capacity to commercialize innovations, particularly in knowledge-intensive sectors;
(xx) Advances in information and communications technology and innovative use of e-commerce to expand market reach, extend networks, access information, and participate in value chains;
(xxi) Participation in clusters and networks that can expediate access to knowledge spillovers and skilled labor, and achieve economies of scale and scope that would be impossible in isolation;
(xxii) Acknowledgement by policymakers, both nationally and internationally, of the vital role of SMEs in economic development, specifically in job creation and poverty reduction.

Policy Challenges

Some key characteristics and constraints of SMEs, which may affect effective policymaking for SME development are as follows:

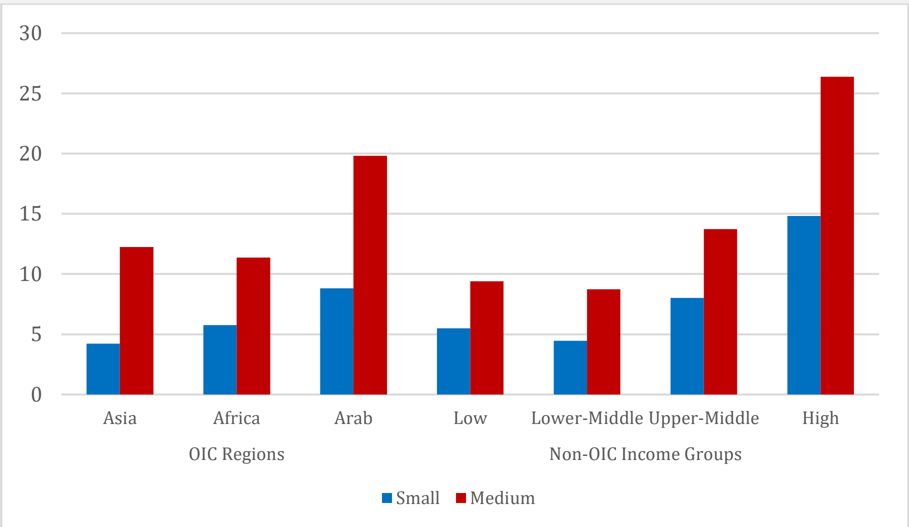
Heterogeneity. MSMEs are a very heterogeneous group of firms in an assortment of business activities in a country. These firms function in very distinctive markets from urban to rural, from subnational to national and from regional to international. MSMEs exhibit a wide array of skill levels, capital intensities, development levels and growth orientations. Their operations may happen in the formal or informal markets.

Varied Definitions. Support for SMEs depends greatly on development assistance, which relies on the existence of a clear way to distinguish them from large firms and micro firms. Thus, these assistance measures effectiveness depends on whether SMEs are defined well and consistently. Heterogeneity across countries and sectors is a major challenge (WB, 2019).

1.2 Current Trends in OIC

Against the background laid out so far, this section uses data from the World Bank Enterprise Surveys (WBES) to present the current trends in SMEs internationalization in OIC countries. The thresholds defined in its enterprise surveys: Firm size levels are 5–19 (small), 20–99 (medium), and 100+ employees (large-size firms).

Figure 1.4. Export Intensity of SMEs in OIC vs. non-OIC Countries



Note: *Authors' elaboration for 42 OIC and 70 non-OIC countries.*
Data Source: *WBES Database*

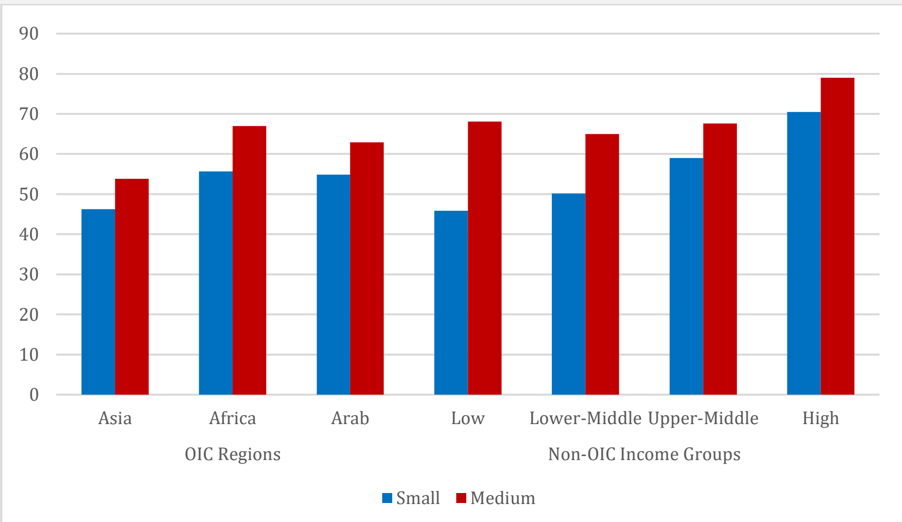
Figure 1.4 shows the export intensity (exports as a share of total sales) of SMEs for both OIC and non-OIC countries in a comparative perspective. In the non-OIC group, export intensity generally increases with country income for both small and medium enterprises. In contrast, the difference in average export intensity of SMEs between the low-income group and the low-and middle-income group is insignificant.

Looking at the medium-sized enterprises in the OIC countries, the Arab group has, on average, a higher export intensity compared to the African and Asian groups of the OIC. In fact, the medium enterprises in the Arab group of the OIC export more than the upper middle income group countries. In the OIC region, the export intensity of medium-sized enterprises in the African and Asian groups is similar and significantly lower than in the Arab group.

As expected, the export intensity of small enterprises is much lower compared to the export intensity of medium-sized enterprises around the world. The barriers that small firms face in exporting, such as capacity problems or limited access to finance, as discussed in the previous sections, are much higher than the barriers faced by medium-sized firms. Only small firms in high-income countries have an export intensity of 15 percent on average. The export intensity of small firms in the Arab group of the OIC and middle-income countries is about 10 percent. In the African and Asian regions of the OIC, small firms have a very low export intensity.

Figure 1.5 illustrates the import intensity (imports as a share of intermediate inputs) of SMEs. Compared to export intensity, both small and medium enterprises have much higher import intensity in all country groups. In the non-OIC group, the average import intensity of medium enterprises reaches almost 80 percent, while the import intensity of medium enterprises averages between 60 and 70 percent, indicating a very high share of foreign intermediate inputs. Within the OIC group, Asia is the OIC region that uses fewer imported intermediate inputs in medium-sized enterprises compared to the other OIC regions as well as the non-OIC countries.

Figure 1.5. Import Intensity of SMEs in OIC vs. non-OIC Countries



Note: *Authors' elaboration for 42 OIC and 70 non-OIC countries.*
Data Source: *WBES Database*

Small sized companies lagging the medium sized countries in all the regions in terms of import intensity as well. Among the non-OIC countries the foreign input usage of small firms increases with income. In the OIC region, the import intensity of the small sized companies in Asia is around 45 percent on average, while the shares of foreign inputs in total inputs of small sized companies in Arab region and Africa region is around 55 percent on average.

Tables 1.2a and 1.2b shows the trade intensities of each country in the OIC region for SMEs, respectively.

Table 1.2a. Trade Intensity of Small Enterprises in OIC Countries

Country	Year	% Exporting	Share exports in total sales (%)	% Importing	Share of imports in inputs (%)
Afghanistan	2014	1.1	0.3	70.7	52.9
Albania	2019	4.5	1.2	47.5	36.7
Azerbaijan	2019	3.6	2.1	54.0	45.4
Bangladesh	2013	1.2	1.0	31.7	14.6
Benin	2016	22	17.8	75.6	46.8
Burkina Faso	2009	2.3	0.7	75.4	53.3
Cameroon	2016	6.5	1.1	58.7	34.3
Chad	2018	7.9	2.6	76.4	52.3
Côte d'Ivoire	2016	2.5	0.7	35.7	30.1
Djibouti	2013	14.8	9.5	74.5	69.1
Egypt	2020	4.7	2.2	29.5	13.4
Gabon	2009	1.6	0.5	71.4	55.8
Gambia	2018	2.9	1.1	50.9	33.1
Guinea	2016	0.2	0.1	73.4	68.5
Guinea-Bissau	2006	1.7	1.4	69.8	47.3
Guyana, CR	2010	10.2	5.8	71.1	45.7
Indonesia	2015	5.3	2.9	1.6	0.9
Iraq	2011	0.4	0.4	35.2	19.9
Jordan	2019	9.3	5.0	79.5	56.7
Kazakhstan	2019	2.6	1.5	64.2	35.4
Kyrgyz Republic	2019	6.6	5.0	78.3	57.7
Lebanon	2019	15.6	6.4	54.4	41.8
Malaysia	2015	4.3	2.2	45.8	17.9
Mali	2016	2.9	0.5	61.1	19.5
Mauritania	2014	0.7	0.4	71.9	62.2
Morocco	2019	15.4	4.7	41.4	15.2
Mozambique	2018	7.7	3.3	21.3	14.1
Niger	2017	5.0	2.4	78.9	54.8
Nigeria	2014	15.2	6.6	28.6	12.7
Pakistan	2013	5.5	4.0	12.3	3.9
Senegal	2014	1.2	0.6	24.0	9.1
Sierra Leone	2017	1.8	0.4	44.4	19.5
Sudan	2014	6.5	3.2	66.7	32.5
Suriname	2018	3.7	1.1	48.2	32.2
Tajikistan	2019	1.6	0.2	49.8	33.4
Togo	2016	13.3	5.5	63.3	49.5
Tunisia	2020	8.3	4.4	45.5	27.1
Turkey	2019	6.9	3.7	36.5	14.8
Uganda	2013	3.2	0.5	36.9	9.7
Uzbekistan	2019	2.2	1.0	36.2	18.5
West Bank and Gaza	2019	12.4	7.7	70.4	50.0
Yemen	2013	9.0	4.0	34.3	24.8

Notes: *Small firms are the ones with 5-19 employees. Data availability dictates the countries reported. Year shows the last year the data is available. % Exporting is the percent of firms exporting directly (at least 10% of sales). % Importing is the percent of firms using material inputs and/or supplies of foreign origin.*
Data Source: *WBES Database*

Table 1.2b. Trade Intensity of Medium Enterprises in OIC Countries

Country	Year	% Exporting	Share exports in total sales (%)	% Importing	Share of imports in inputs (%)
Afghanistan	2014	2.9	1.6	75.0	54.7
Albania	2019	30.6	22.7	84.5	72.0
Azerbaijan	2019	14.9	4.3	74.5	61.4
Bangladesh	2013	4.0	3.5	44.1	21.9
Benin	2016	4.3	3.2	66.1	39.5
Burkina Faso	2009	3.9	1.4	68.3	53.0
Cameroon	2016	14.3	4.6	80.1	45.0
Chad	2018	4.3	2.2	51.7	30.0
Côte d'Ivoire	2016	7.3	3.9	55.5	29.5
Djibouti	2013	11.0	5.9	64.0	49.3
Egypt	2020	10.4	4.7	38.9	19.1
Gabon	2009	12.9	6.6	100	61.3
Gambia	2018	14.5	6.3	81.8	44.1
Guinea	2016	10.7	9.0	82.1	63.9
Guinea-Bissau	2006	14.6	8.0	63.7	40.6
Guyana, CR	2010	19.0	9.9	77.0	44.9
Indonesia	2015	7.9	5.0	10.7	4.6
Iraq	2011	2.0	0.4	63.8	34.9
Jordan	2019	38.6	20.1	92.6	59.9
Kazakhstan	2019	8.4	4.0	47.1	24.4
Kyrgyz Republic	2019	9.3	5.9	75.5	42.3
Lebanon	2019	26.9	9.8	77.6	56.5
Malaysia	2015	19.2	7.6	46.7	12.6
Mali	2016	14.5	3.1	93.5	43.1
Mauritania	2014	33.7	27.9	70.3	38.6
Morocco	2019	20.5	6.7	31.6	10.3
Mozambique	2018	15.9	7.8	54.5	35.8
Niger	2017	6.9	3.1	68.6	56.5
Nigeria	2014	14.9	6.0	36.9	14.2
Pakistan	2013	10.7	5.2	26.2	10.4
Senegal	2014	14.6	4.6	54.0	29.6
Sierra Leone	2017	4.4	1.2	48.9	29.3
Sudan	2014	5.7	3.0	66.9	37.2
Suriname	2018	16.9	7.5	71.3	44.3
Tajikistan	2019	4.6	2.7	30.1	24.3
Togo	2016	29.1	17.3	83.6	69.7
Tunisia	2020	30.3	20.8	69.2	45.7
Turkey	2019	14.7	8.2	41.4	19.9
Uganda	2013	6.2	2.0	49.0	18.5
Uzbekistan	2019	8.3	4.2	49.8	25.9
West Bank and Gaza	2019	35.5	26.6	80.2	63.2
Yemen	2013	3.6	1.1	36.8	28.6

Notes: *Medium firms are the ones with 20-99 employees. Data availability dictates the countries reported. Year shows the last year the data is available. % Exporting is the percent of firms exporting directly (at least 10% of sales). % Importing is the percent of firms using material inputs and/or supplies of foreign origin.*
Data Source: *WBES Database*

Table 1.3 shows customs and trade regulations as barriers to SMEs in OIC countries. While the first and second columns indicate the time required for customs clearance of exports and imports, respectively, the last column indicates the percentage of SMEs that reports an abundance of customs and trade regulations as a major obstacle to their business.

Customs clearance in OIC countries is very heterogeneous. In only 8 countries (Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Iraq, Sierra Leone, Tajikistan, and Yemen) does it take less than 5 days for SMEs to have their exports cleared by customs. In Albania, Jordan, Lebanon, Mauritania, Morocco, Togo, Tunisia and West Bank and Gaza) it takes more than 20 days. While clearance times for imports are like those for exports in many countries, it is notable that SMEs in almost all countries can clear their imports in less time than their exports.

Among SMEs citing customs and trade regulations as the main barrier to doing business, Gabon, Mali, Jordan, Albania, Togo, Cameroon, and the West Bank and Gaza are at the top, while countries with larger domestic markets such as Indonesia, Malaysia, Pakistan, and Turkey are at the bottom.

Table 1.4 shows a selection of the main obstacles faced by SMEs in OIC countries. These include access to finance, corruption, customs and trade regulations, electricity, and taxes. The importance of these factors stems from the fact that these obstacles are to blame if SMEs are unable to operate and produce capacity and are thus less able to internationalize.

It is evident that access to finance is the biggest obstacle for SMEs in almost all countries. The highest percentages of SMEs reporting finance as the biggest obstacle to doing business come from The Gambia, Sierra Leone, Tunisia, Senegal, and Burkina Faso, with 53.1, 39.7, 39.4, 38.6, and 35.5 percent of all SMEs, respectively. In Afghanistan, Djibouti, Egypt, Gabon, Jordan, Kyrgyz Republic, Lebanon, Mali, Morocco, Mozambique, Nigeria, Pakistan, Sierra Leone, and Tunisia, a higher share of SMEs report corruption as being the biggest barrier to do business.

Customs and trade regulations prove to be the biggest obstacle for SMEs in Guinea and Sudan. It is, however, noteworthy that electricity is the biggest obstacle in many OIC SMEs. In Djibouti it is 48.8 percent, in Guinea-Bissau 47.1 percent, and in Pakistan 45.3 percent.

Finally, there is a significant proportion of SMEs in OIC countries that consider taxes to be the biggest obstacle to their business. These shares are 24.4 percent in Egypt, 28.8 percent in Tajikistan, 25.5 percent in Togo, and 24.1 percent in Turkey.

Table 1.3. Customs and Trade Regulations as Obstacles for OIC SMEs

Country	Year	Days to clear exports from customs	Days to clear imports from customs	% of SMEs identifying customs and trade regulations as a major constraint
Afghanistan	2014	2.9	1.6	75.0
Albania	2019	30.6	22.7	84.5
Azerbaijan	2019	14.9	4.3	74.5
Bangladesh	2013	4.0	3.5	44.1
Benin	2016	4.3	3.2	66.1
Burkina Faso	2009	3.9	1.4	68.3
Cameroon	2016	14.3	4.6	80.1
Chad	2018	4.3	2.2	51.7
Côte d'Ivoire	2016	7.3	3.9	55.5
Djibouti	2013	11.0	5.9	64.0
Egypt	2020	10.4	4.7	38.9
Gabon	2009	12.9	6.6	100
Gambia	2018	14.5	6.3	81.8
Guinea	2016	10.7	9.0	82.1
Guinea-Bissau	2006	14.6	8.0	63.7
Guyana, CR	2010	19.0	9.9	77.0
Indonesia	2015	7.9	5.0	10.7
Iraq	2011	2.0	0.4	63.8
Jordan	2019	38.6	20.1	92.6
Kazakhstan	2019	8.4	4.0	47.1
Kyrgyz Republic	2019	9.3	5.9	75.5
Lebanon	2019	26.9	9.8	77.6
Malaysia	2015	19.2	7.6	46.7
Mali	2016	14.5	3.1	93.5
Mauritania	2014	33.7	27.9	70.3
Morocco	2019	20.5	6.7	31.6
Mozambique	2018	15.9	7.8	54.5
Niger	2017	6.9	3.1	68.6
Nigeria	2014	14.9	6.0	36.9
Pakistan	2013	10.7	5.2	26.2
Senegal	2014	14.6	4.6	54.0
Sierra Leone	2017	4.4	1.2	48.9
Sudan	2014	5.7	3.0	66.9
Suriname	2018	16.9	7.5	71.3
Tajikistan	2019	4.6	2.7	30.1
Togo	2016	29.1	17.3	83.6
Tunisia	2020	30.3	20.8	69.2
Turkey	2019	14.7	8.2	41.4
Uganda	2013	6.2	2.0	49.0
Uzbekistan	2019	8.3	4.2	49.8
West Bank and Gaza	2019	35.5	26.6	80.2
Yemen	2013	3.6	1.1	36.8

Notes: *Data availability dictates the countries reported.*
Data Source: *WBES Database*

Table 1.4. Biggest Obstacles in front of SMEs in OIC Countries

Country	Year	Finance %	Corruption %	Customs %	Electricity %	Tax %
Afghanistan	2014	12.1	16.2	2.4	10.2	5.0
Albania	2019	3.1	8.4	2.7	8.0	21.1
Azerbaijan	2019	23.7	7.9	7.0	2.7	2.3
Bangladesh	2013	13.8	7.9	1.4	27.8	1.4
Benin	2016	32.6	4.7	6.4	18.8	10.3
Burkina Faso	2009	35.5	9.7	6.8	6.1	17.7
Cameroon	2016	20.5	7.6	5.1	12.7	5.0
Chad	2018	8.3	8.0	3.9	15.5	10.5
Côte d'Ivoire	2016	25.1	4.7	3.5	5.0	8.3
Djibouti	2013	1.9	12.6	3.8	48.8	12.4
Egypt	2020	8.4	14.6	4.7	3.1	24.4
Gabon	2009	8.6	10.3	6.5	23.4	2.2
Gambia	2018	53.1	0.4	0.5	20.8	6.8
Guinea	2016	6.5	5.7	10.4	4.4	9.7
Guinea-Bissau	2006	20.1	7.5	0.7	47.1	6.0
Guyana, CR	2010	4.9	7.3	9.0	10.1	12.5
Indonesia	2015	6.3	2.5	6.2	0.8	14.3
Iraq	2011	4.7	2.9	4.3	19.7	4.6
Jordan	2019	2.2	15.7	6.2	12.7	28
Kazakhstan	2019	7.2	6.9	1.8	7.3	18.3
Kyrgyz Republic	2019	8.2	17.5	3.0	2.1	6.2
Lebanon	2019	28.7	12.1	2.1	5.0	6.6
Malaysia	2015	0.9	8.2	4.9	2.1	9.5
Mali	2016	20	15.6	3.1	7.5	0.6
Mauritania	2014	31.3	2.8	3.2	14.3	6.2
Morocco	2019	4.3	15.5	0.3	6.3	15.2
Mozambique	2018	14.8	16.0	4.8	8.4	7.9
Niger	2017	15.2	8.0	2.4	10.9	4.3
Nigeria	2014	30.2	12.7	2.2	27.2	5.9
Pakistan	2013	2.7	17.3	2.4	45.3	3.6
Senegal	2014	38.6	4.1	6.2	8.1	3.5
Sierra Leone	2017	39.7	10.5	2.5	11.8	9.3
Sudan	2014	5.7	7.8	21.9	0.6	9.3
Suriname	2018	25.9	2.2	1.7	12.4	1.2
Tajikistan	2019	5.2	2.3	0.8	8.4	28.8
Togo	2016	24.2	6.8	4.8	6.9	25.5
Tunisia	2020	39.4	15.0	5.4	0.6	3.2
Turkey	2019	28.9	1.1	0.8	2.6	24.1
Uganda	2013	12.3	2.6	1.7	23.4	18.5
Uzbekistan	2019	10.2	4.9	2.3	11.7	23
West Bank and Gaza	2019	17.7	1.0	6.1	5.2	1.1
Yemen	2013	4.8	7.9	0.7	23.7	0.2

Notes: *Data availability dictates the countries reported. All variables indicate % of firms seeing that particular item as the biggest obstacle for their business.*
Data Source: *WBES Database*

1.3 Benefits of SME Internationalization

Although most of the companies in the world are SMEs, they are less productive than larger firms, have higher failure rates, and offer less stable as well as less well remunerated jobs compared to larger firms. Moreover, only a small number of SMEs engage in innovation which is the main determinant of productivity and growth. However, internationalization would contribute to SMEs in many areas making them more stable, increasing their survival rates and their performances. In other words, there are firm-level benefits for SMEs to engage in trade, as discussed in the first subsection. Not only firms but the whole economy benefits from SME internationalization which will be explained in the second subsection.

1.3.1 Firm-Level Benefits of Internationalization

SMEs usually consider engaging in internationalization, which necessitates substantial financial and human resource investment, as costly and risky. However, there are many benefits of internationalization to SMEs through access to a broader customer base, more suppliers and new technology exposures. Engaging in exporting extends the market size, provides exposure to international best practices, contributes to learning, helps technology and quality upgrading (Baldwin and Gu, 2003). The firm-level benefits of SME internationalization will be discussed in line with literature below.

Growth

Literature suggests that firms that engage in exporting grow faster than the domestic firms.[3] Engaging in exports for a firm, results in an increase in sales and sales (Bernard and Jensen, 1999). Moreover, engaging in broader internationalization activities such as FDI and offshoring would boost sales (Debaere et al., 2010).

In contrast, the impact of SME internationalization on firm growth is a little-studied topic. Older studies did not find a strong relationship between exports and growth (Westhead et al., 2001). However, recent research suggests that SME employment and growth increase significantly as a result of exporting (European Commission, 2014; Boermans and Roelfsema, 2015). The impact on growth is higher for SMEs in high-growth sectors that have diversified export markets and are engaged in e-commerce, while employment is higher for firms in sectors that are part of regional value chains (WTO, 2016).

EC (2010) shows the benefits of internationalization based on a survey of 9,480 SMEs in 33 countries for the period 2007-2008. The results are as follows:

[3] Wagner (2012) and WTO (2016) provide extensive literature surveys.

- SMEs that internationalize experience higher sales growth compared to those that operate only domestically. While 50 percent of SMEs that internationalized saw an increase in sales, the average for all SMEs is only 33 percent.
- SMEs engaged in exporting experienced employment growth of 7 percent, while the growth rate for non-exporters is only 3 percent. The employment growth rates for importing and non-importing SMEs are 8 percent and 2 percent, respectively.
- SMEs that both import and export recorded employment growth of 10 percent, while the growth rate for the others is limited to 3 percent.

Productivity Increases

The impact of internationalization of trade has been widely evaluated in the international trade literature. Bernard and Wagner (1997) and Bernard and Jensen (1999) discuss the "self-selection hypothesis" that the export decision is made by firms with higher productivity. The "learning-by-exporting" hypothesis, on the other hand, states that firms make the export decision first. As a result, their productivity increases as they gain knowledge through exporting (Clerides et al., 1998).

Another line of research suggests that firms that export prefer imported intermediates of higher quality. Through the effects of learning, quality, and diversity, SMEs that internationalize increase their productivity (Amiti and Konings, 2007; Bas and Strauss-Kahn, 2012). Empirical studies also show the positive impact of imports on firm productivity (WTO, 2016).

Learning-by-Exporting

Firms that export find new markets and improve their managerial capabilities by learning from their international buyers, distributors, and competitors, depending on the quality of their labor force, export experience, and use of imported inputs (IADB, 2014).

Empirical evidence supports the hypothesis of learning through exporting. Atkin, Khandelwal, and Osman (2014), using data from carpet producers in Egypt, suggest that firms that export improve their technology, profits, and productivity. Bigsten et al. (2004) reached similar conclusions by focusing on Cameroon, Ghana, Kenya, and Zimbabwe. Finally, Van Biesebroeck (2005) supports the same hypothesis by looking at nine African countries.

Innovation

To increase the quality of products in line with consumer demand, companies that export increase their innovation capacity and invest in R&D (IADB, 2014). Moreover, innovation and exporting are complementary drivers of SME growth. An empirical study on Spain, Golovko and Valentini (2011), supports the hypothesis that exporting and innovation contribute to SME growth.

EC (2010) provides evidence of the strong link between internationalization and innovation based on a EU SME survey for 2008-2009. Among SMEs that are international, 26 percent introduce new products or services. Among non-internationalized SMEs, innovation is limited to only 8 percent. The figures for process innovation among internationalized SMEs are 11 percent, compared with 3 percent among non-internationalized companies.

Revenue Diversification

Through internationalization, SMEs diversify their markets, which also diversifies their revenues. Operating in different markets reduces their vulnerability to downturns in a particular market. This reduces the volatility of their revenues (IADB, 2014).

Capacity Utilization

Exporting offers the company the opportunity to achieve economies of scale. Access to international markets and diversified markets increases SME capacity utilization and lowers average costs (IADB, 2014).

Competitiveness

SMEs that export face foreign competition, which leads them to increase their efficiency to achieve a higher survival rate, improve their technology, human capital and market penetration, and introduce innovations that would improve quality and the introduction of new products.

Competition within the sector would amplify the benefits of exporting through spillover effects to other firms in the same sector, as well as to firms in upstream and downstream industries, which would have a significant impact on the labor market. As a result of the productivity gains brought by competition, SMEs that engage in internationalization would contribute to job creation, employment of more skilled workers, and wage increases compared to nonexporters. Riker (2010) suggests that exports have increased wages in U.S. manufacturing firms by 18 percent.

1.3.2 Economy Level Benefits

In the previous section, we discussed the benefits of internationalization at the firm level. These within-firm effects lead to several significant within-country effects for the home countries of exporting SMEs, as shown below.

Productivity Gains

Firms that export become more productive, have access to greater resources, and obtain higher market shares than non-exporting firms. As a result, the overall productivity of the economy increases. The production share of the economy in each sector is constantly changing due to the fast-growing SME exporters. This change causes the less productive and non-exporting companies to exit the market. In other words, churn tends to occur among non-exporting SMEs (Bernard and Jensen, 2004).

Job Creation

The basic channels through which SME exports lead to employment growth at home are firm-level growth, productivity gains, and spillovers.

SMEs that export achieve higher growth rates and are likely to increase their employment capacity. In other words, SMEs increase employment by expanding exports. The literature suggests that SMEs create more jobs than large firms and that SMEs have higher net job creation (Globalization and Economic Policy Center, 2010; Aterido, Hallward-Dreimeier, and Pages, 2009).

Productivity gains at the firm level have been cited as one of the benefits of SME internationalization. Productivity boosts achieved through exporting would lead to job creation for SMEs, depending on labor market conditions.

SMEs that export support job creation in service companies in their home country. The complementarity of goods and services requires exports to use product design, marketing, financial services, consulting, production services, wholesale trade, and logistics and transportation services. Tschetter (2010) points out that U.S. goods exports have spillover effects on the services sector. The total increase in employment due to exports in the U.S. is estimated at 39 percent of total employment.

Knowledge Spillovers

Another economic advantage that SMEs have in internationalization is knowledge spillovers. Through personnel movements, demonstration effects, or market diffusion, exporting firms pass on the knowledge, know-how, and skills they have acquired through exporting to non-exporting domestic firms. An additional knowledge spillover effect of SME exports occurs through "followers." These "followers" export the same products because they follow the routines of SMEs that are already exporting.

Poverty Reduction

Improving the performance of SMEs and engaging them in trade would help countries achieve better income distribution.

The poor can benefit from SME internationalization in several ways: (i) SME internationalization increases economic growth, which is the most important prerequisite for poverty alleviation. (ii) SME internationalization would affect relative prices. Prices of consumer goods in the home country decrease, while prices of producer goods increase. In particular, the poor earn more when they participate in exports. (iii) As a result of SME internationalization, the poor, as consumers of inputs, use a wide range of capital goods and services as well as technology. As a result, the productivity of the poor increases due to the internationalization of SMEs. (iv) SME internationalization leads to an increase in the wages of the poor (WTO, 2018).

According to Melitz's (2003) trade models, if trade costs decrease with greater trade participation, then both new opportunities for the most productive SMEs and greater import competition are the result. To be precise, efficiency gains and better distribution would be achieved through lower trade costs in the case of limited adjustment costs. This would transform low-quality and low-paying jobs into formal and better-paying jobs. These results are both theoretically and empirically proven. Maertens et al. (2011) show that the integration of SMEs into GVCs in developing countries leads to an increase in agricultural productivity and a reduction in poverty. Maertens and Swinnen (2009) point out that during the period 1991-2005, Senegal's vegetable exports to the EU increased significantly despite higher sanitary and phytosanitary (SPS) requirements. The result was income gains and a reduction in poverty. In addition, food regulation forced smallholder farmers to switch to large-scale integrated production.

Overall, the internationalization of SMEs would play a key role in achieving the SDGs and, in particular, in "promoting sustainable, inclusive and sustainable growth, full and productive employment and decent work for all."

Another focus should be the fact that many of the SMEs are operated by women, which reinforces the result of SME internationalization. Promoting female entrepreneurship has a key role to play in poverty reduction. Korinek (2005) suggests that employment that results in more household resources being under women's control leads to higher investment in health and education.

1.4 Key Partners and Initiatives of SME Internationalization

As discussed in the previous sections, SMEs are the backbone of economies. SME participation in a country's trade plays an important role in achieving sustainable growth and reducing poverty. However, SMEs need support to engage in trade. In the survey conducted by the European Commission (2010), 55 percent of internationally active SMEs indicated that public support plays an important role in their internationalization. In this regard, many international organizations provide either direct support programs for SME internationalization or other support programs aimed at building SME capacity through collaboration with governments. In addition, there are international or regional initiatives that SMEs can take advantage of to internationalize. In this section, you will find a detailed list of institutions that are important partners in the internationalization of SMEs, as well as a list of the initiatives they offer.

1.4.1 World Trade Organization (WTO)

The WTO deals with the rules governing trade between nations. The WTO is active through the agreements signed by most countries in the world to ensure free trade. Its functions include participating in trade negotiations, playing an active role in the implementation and monitoring of WTO agreements and in dispute settlement, and increasing the trade capacity of countries, especially developing countries. In this regard, the WTO has taken a number of initiatives to enhance the role of SMEs in world trade.

Initiatives by WTO

(i) *Informal Working Group on MSMEs:* The group's goal is to identify and address barriers to MSME internationalization. It has been active since 2018 and 91 members are involved in the group. They focus on horizontal and non-discriminatory measures to support MSME participation in trade.

(ii) *The Global Trade Helpdesk:* It is a single online platform for trade and economic information, useful especially for MSME market research.

(iii) *Working Group on Trade, Debt and Finance:* The goal of the working group is to analyze how trade-related policies and their impact on developing countries, especially indebted countries. They also focus on trade finance and ways to improve access to finance for SMEs.

(iv) *Government procurement:* The WTO Committee on Government Procurement has initiated a special program for MSMEs. Its aim is to increase the participation of SMEs in public procurement projects and to improve competitiveness in public procurement processes.

(v) *Intellectual property:* The Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS), works specifically on the importance of intellectual property rights (IPR). The WTO supports SME IPR by increasing transparency, providing financial assistance programs, and simplifying application procedures.

(vi) *Aid for Trade:* The work program aims to address infrastructure constraints associated with internationalization. The latest program focuses on agriculture and tourism, where MSMEs are the active players.

(vii) *Enhanced Integrated Framework (EIF) and the Principles and Trade Development Facility (STDF):* The EIF helps countries overcome barriers such as competitiveness and supply chain weaknesses, as well as specific barriers for SMEs. The STDF, on the other hand, focuses on SPS measures, especially for SMEs.

(viii) *Trade Dialogues:* One of the topics of the trade dialogs is the internationalization of SMEs.

(ix) *Digital Champions for Small Business:* This is a joint initiative of the Informal Working Group on Micro, Small and Medium Enterprises, the International Chamber of Commerce and the ITC. The goal is to support SMEs in digitalization and internationalization.

(x) *Small Business Champions:* This is a joint initiative of the WTO and the International Chamber of Commerce. The aim is to support the innovative ideas of SMEs to help them internationalize.

1.4.2 United Nations Conference on Trade and Development (UNCTAD)

UNCTAD's goal is to help developing countries reap the benefits of globalization in the world by helping them overcome the difficulties of economic integration. The internationalization of SMEs plays a key role for UNCTAD in achieving its objectives: (i) integrating the country into the global trading system in a beneficial way, (ii) diversifying economies, (iii) promoting entrepreneurship and innovation, (iv) helping domestic enterprises integrate into GVCs. Overall, UNCTAD works with governments to support their SMEs, increase their economic growth and internationalize them.

Initiatives by UNCTAD

(i) *EMPRETEC- Entrepreneurship training:* it is a capacity building program of UNCTAD to support entrepreneurship of MSMEs to achieve the ultimate goals of sustainable development and inclusive growth.
(ii) *The Entrepreneurship Policy Framework and Implementation Guidance:* aims to support entrepreneurship in developing countries by helping policy makers design initiatives, policies and institutions. The guidance includes recommendations for action, checklists, case studies, best practices, methods for monitoring and evaluating policy, and a set of indicators to measure progress.
(iii) *Business Facilitation Program:* this is a digital government platform that provides tools for easy and automated public administration. They suggest that the program promotes the growth of MSMEs.
(iv) *ISAR Corporate Transparency Accounting (ISAR):* It aims to improve the quality and comparability of financial reporting.

1.4.3 International Trade Center (ITC)

The ITC is a multilateral agency with a joint mandate with the WTO and the UN through UNCTAD. The ITC's goal is to promote trade-led growth by supporting the competitiveness of MSMEs and integrating them into global and regional value chains, ultimately to reduce poverty and achieve sustainable growth.

The ITC provides support to countries and MSMEs in the form of unique advisory services, capacity building, training, and business data. They help countries create and use trade information, improve trade support institutions, and improve export performance of SMEs.

Initiatives by ITC

(i) *MSME Export Development Program:* The objective of the program is to support both SMEs and export promoting institutions to increase SME exports and improve access to new markets. The program offers three components: Export Accelerator - technical and consulting services for SMEs, Small Business Internationalization Certificate, and Direct Business Support.
(ii) *ITC SME Trade Academy:* It aims to provide training in export development, sustainability, trade support, entrepreneurship, e-commerce, and market analysis.
(iii) *Business Diagnostics and Benchmarking:* It is a free tool for SME managers to perform in-depth diagnostics. The platform allows users to make intertemporal comparisons and track the evolution of a company's performance, determine the effectiveness of an improvement plan, or conduct company evaluations at the beginning and end of a project.

The platform also allows users to compare companies to a pool of companies from around the world with similar characteristics.

(iv) *Rules of Origin Facilitator:* This is a joint WTO and WCO initiative. It is based on the ITC's Rules of Origin and Origin Regulations database. The goal is to support the internationalization of SMEs. Companies can access the necessary information on available trade agreements, tariff benefits, product-specific rules of origin and other necessary information.

(v) *Export potential map:* It releases information on products, markets and suppliers with untapped export potential in a timely and practical manner. Trade consultants, policy makers and SMEs can benefit from this tool.

(vi) *Procurement Map:* It is an online tool developed for SMEs to help them participate in public tenders in other countries and improve their capacity.

(vii) *Market Price Information Portal:* The aim is to provide MSMEs and smallholders in developing countries with up-to-date price information to enhance their competitiveness and growth.

1.4.4 Organization for Economic Co-operation and Development (OECD)

The OECD is an international organization with the goal of working with governments, policymakers and citizens to promote prosperity, equality, opportunity and well-being for all.

To achieve the ultimate goal of sustainable growth, competitiveness and more skilled jobs through the promotion of SMEs, the OECD provides data and analysis.

Initiatives by OECD

(i) *The SME Policy Index:* It helps policymakers identify the potential of SMEs, policy indicators are used to determine a country's position on its SME policy. The tool has been developed by the OECD and other organizations for many regional groupings.

(ii) *OECD Trade and Value-Added Database (TiVA):* This is a joint initiative with the WTO. The database shows each country's value added in the production of goods and services to leverage trade relations between countries.

(iii) *OECD Trade Facilitation Indicators:* It contains trade facilitation indicators such as procedures, cooperation, and fees and charges for 160 countries.

(iv) *OECD Trade Restrictiveness Index for Trade in Services:* It aims to show the information and measurement tools on trade liberalization in services.

1.4.5 European Commission (EC)

In June 2008, the EC launched the Small Business Act for Europe (SBA), which was updated in 2011. The aim is to support and promote the internationalization of SMEs through training programs and market-specific support.

The European Regional Development Fund (ERDF) supports SMEs in a variety of areas such as entrepreneurship, innovation and competitiveness for SMEs (e.g., advice to entrepreneurs, development of technological infrastructure, improvement of innovation and eco-innovation).

Initiatives by EC

(i) *Your Europe Business Portal:* It helps SMEs obtain information and other services for internationalization within the EU.
(ii) *Erasmus for Young Entrepreneurs:* This is a partially funded cross-border exchange program for entrepreneurs in different EU countries to learn from each other.
(iii) *Solvit:* This is a free dispute resolution program for SMEs and other businesses.
(iv) *Enterprise Europe Network:* The program supports European SMEs in accessing EU funding, internationalization, and licensing of new technologies, i.e., a one-stop store. In addition, SMEs are supported through networking events and B2B contacts.
(v) *European Small Business Portal:* This is an information portal to support the internationalization of SMEs.
(vi) *EUREKA Eurostars Program:* This program provides funding for SMEs that invest 10 percent of their turnover in international research.
(vii) *European Cluster Cooperation Platform (ECCP):* Over 900 cluster organizations are registered on this web-based platform. The clusters promote themselves, share their experiences with others, and find potential collaboration partners for their members who are SMEs.
(viii) *International cluster matchmaking events:* The events are held to help SMEs find international cooperation partners.
(ix) *IPR Helpdesks:* They support SMEs by providing advice on intellectual property (IP) and IPR.
(x) *EU Business Centers:* There are various business centers around the world that help SMEs find business and investment opportunities.
(xi) *SME Internationalization Portal:* The portal was developed to assist SMEs wishing to do business outside the EU by linking numerous SME internationalization service providers and information.
(xii) *Market Access Database:* It provides information on customs, procedures, formalities, statistics and trade barriers.

1.4.6 African Development Bank (AfDB)

The objective of the AfDB Group is to achieve sustainable economic development and social progress in its regional member countries (RMCs) with the ultimate goal of alleviating poverty.

Initiatives by AfDB

(i) *African Guarantee Fund (AGF): T*his is a guarantee scheme for small SMEs, launched in 2012 to facilitate access to finance. It is funded by the AfDB in partnership with Denmark and Spain and is also supported by other donors. Focus Areas / Subsectors. There are two activities under this initiative. The first is partial loan guarantees for financial institutions to facilitate access to finance for SMEs. The second is capacity building offered to financial institutions to enhance their SME business capacity.

(ii) *The African Trade Fund (AfTra):* The objective is to increase trade in Africa. The Fund includes three activities: trade facilitation, institutional capacity building, and product and market development.

(iii) *The Africa SME Program:* The goal of the program is to get financial institutions to provide financing to SMEs by providing technical assistance to local financial institutions in Africa.

1.4.7 European Bank for Reconstruction and Development (EBRD)

The EBRD's goal is to strengthen progress toward "market-oriented economies and the promotion of private and entrepreneurial initiative." It was established in 1990 and currently operates in some 40 countries. As part of its mandate, the EBRD implements projects to support SMEs.

Initiatives by EBRD

(i) *Trade Ready:* It is a program that advises SMEs on internationalization by increasing their competitiveness. They train SMEs to improve their know-how in areas such as accessing trade finance, preparing the business, and improving the efficiency of operations. Local banks are contacted and trained to specialize in trade finance for SMEs.

2 COUNTRIES' EXPERIENCE

This chapter focuses on the results of country reviews, field visits, and surveys. The countries that underwent desk reviews are Nigeria, Pakistan, Poland, South Korea, and Vietnam; the countries that underwent field visits are Malaysia, Morocco, and Spain. These country reviews discuss general information about the country, foreign trade developments, SME performance in the economy and exports. In addition, for the selected OIC and non-OIC countries, programs to support SME internationalization are highlighted in line with the relevant institutions. The final section of the chapter presents the survey conducted with the OIC countries on their experiences with SME internationalization and discusses the results of the analysis.

2.1 Desk Reviews

2.1.1 Nigeria

2.1.1.1 Background

Nigeria is located in the western part of Africa and is one of the developing countries south of the Sahara. With a total area of 910,768 km^2, Nigeria is known for having the largest population in Africa and the seventh largest population (over 200 million inhabitants) in the world (Igwe, Madichie, & Newbery, 2018). The official language is English and local languages include Hausa, Igbo, and Yoruba. The country is home to more than 250 ethnic groups. In addition, nearly 55 percent of the population lives in the Muslim-dominated northern states and 45 percent in the Christian-dominated southern states (IMF, 2021), (World Bank, 2021).

After being a British colony for nearly a century (1861-1960), Nigeria gained independence in October 1960. After years of military rule, democracy was restored in 1999 and continues to this day. Corruption has been cited as one of the major setbacks for the Nigerian economy (Ajayi, 2016). In this sense, the country ranked 144th out of 180 countries in the 2018 Transparency International report. In this regard, there are indications of inconsistencies in export promotion and internationalization policies in the country (Adebayo et al., 2019; Ogunmola, 2020; Okpara & Kabongo, 2010).

Nigeria is now considered one of the most promising developing countries in the world in terms of economic growth. It recently overtook South Africa to become Africa's largest economy (IMF, 2018). In 2016, the Nigerian economy experienced its first recession in more than two decades. The continued decline in oil prices, foreign exchange shortages, a sharp drop in oil production, power shortages, and insecurity in the northern regions and the Niger Delta were among the main causes of the 2016 recession (African Development Bank Group, 2017).

At the onset of the COVID-19 crisis, Nigeria experienced its worst economic downturn since the 1980s, dwarfing the 2016 recession. The services and industrial sectors were particularly hard hit. This was partly because of the lockdown measures that prevented people from going to work, and partly because the price of oil - which accounts for more than 80 percent of Nigeria's exports and more than 50 percent of government revenues - plunged by more than 60 percent between February and May 2020. In the later stages of the COVID-19 crisis, economic activity began to recover, but inflation accelerated. Skyrocketing food prices disproportionately affected the poor and vulnerable. By disrupting markets, the crisis exacerbated preexisting structural distortions such as trade restrictions that were already driving up prices and undermining purchasing power before the pandemic (Lain and Vishwanath, 2021). The key indicators of the Nigerian economy are presented in Table 2.1.

Table 2.1. Key Indicators of the Nigerian Economy

	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	487	405	376	397	448	432	--
GDP per capita in current prices	2,687	2,176	1,969	2,028	2,230	2,097	--
Growth rate of GDP (%)	2.65	-1.62	0.81	1.92	2.21	-1.79	--
Inflation rate (%)	9.01	15.68	16.52	12.09	11.40	13.25	--
Unemployment rate (%)	4.31	7.06	8.39	8.46	8.53	9.71	9.79

Source: *World Development Indicators Database*

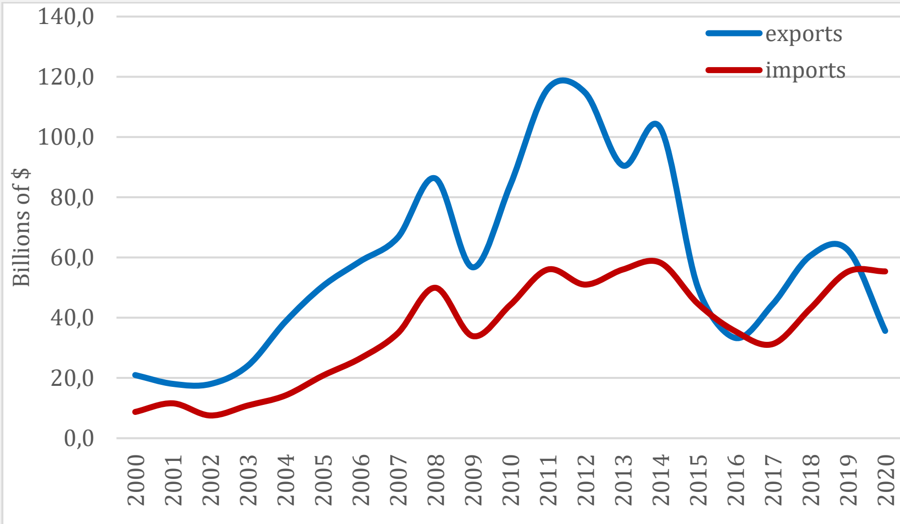
2.1.1.2 Foreign Trade

Major export products of Nigeria are fuels and mining products, manufactured products and, and agricultural products with shares of 31.6 percent, 2.74 percent and 1.1 percent in total exports in 2020, respectively. Exports started to decline due to the drop in international oil prices in 2014. A gradual recovery started in 2019. However, as the energy utilization has recessed in many countries around the World during the pandemic, exports of Nigeria started to decline in 2020.

The sector with highest share in imports of Nigeria is manufacturing with 67.9 percent share in total imports. The remaining sectors, fuel and mining products and agriculture, has equal share of 15 percent in total imports. Imports generally increased from 2000 until 2014, except a sharp drop in 2009 due to the Great Recession. Over the past decade, Nigerian import values have fluctuated as the government has attempted to capitalize on its rapid economic growth and clear international debts, as well as dealing with the economic impact of fluctuating oil prices and the COVID-19 pandemic.

Nigeria's exports amounted to 35.63 billion USD in 2020, while imports were more than 55 billion USD, as shown in Figure 2.1. This was one of the few years in the last two decades in which the value of exports was lower than imports, as Nigeria has generally been a net exporter of goods.

Figure 2.1. Exports and Imports of Nigeria, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

2.1.1.3 SMEs and Internationalization

Nigeria uses a detailed definition of MSMEs involving nano and MEs as well. While nano enterprises consist of businesses with 1-2 employees, MEs are composed of businesses with 3-9 employees. Small and medium size enterprises are defined as businesses with 10-49 and 50-199 employees, respectively. The definition also includes turnover limits and these are presented in Table 2.2.

Table 2.2. SME Definition of Nigeria

Category	Employment Size	Turnover (Naira)
Nano Enterprises	1-2 persons	Less than 3 million
Micro Enterprises	3-9 persons	3<25 million
Small Enterprises	10-49 persons	25<100 million
Medium Enterprises	50-199 persons	100 million,1 million

Source: *SMEDAN/NBS MSME Survey, 2021.*

Size distribution of Nigerian SMEs in 2020 is presented in Figure 2.2 for formal and informal sectors based on SMEDAN/NBS Survey (2021) summarized in Box 1. In the formal MSME sector, half of the firms are small enterprises employing between 10-49 persons. Micro and nano firms constitute 32 percent and 14 percent of MSMEs in the formal sector, respectively. Medium firms constitute only 4 percent of MSMEs. In the informal sector, we only have information on nano and micro firms. In contrast to formal sector, 86 percent of the MSMEs are nano firms and 14 percent of them are micro firms in informal sector. In other words, informal sector is mostly composed of nano companies employing 1-2 persons.

Box 2.1. SMEDAN/NBS MSME Survey 2021

The 2020 National Survey of MSMEs, the fourth edition, covered enterprises in Nigeria employing less than 200 persons (i.e., Nano, Micro, Small and Medium Enterprises) and was conducted in all 36 states.

The total number of MSMEs in December 2020 was 39,654,385, composed as follows: MEs: 38,413,420 (or 96.9 percent), SMEs: 1,240,965 (or 3.1 percent). The highest number of enterprises in all classes was reported from Lagos State.

The top four (4) economic sectors (MEs) were agriculture (38.4 percent), wholesale/retail trade (33.3 percent), other services (9.8 percent), and manufacturing (4.2 percent). Together, these sectors account for about 85.7 percent of all MEs. In 2020, a total of 61,954,073 persons were employed in MSMEs. However, 16,042,067 (MEs) jobs were created in the informal sectors, with agriculture accounting for the largest share (61.1 percent), while 7,498,586 jobs were created in the formal sector, with manufacturing (21.6 percent) registering the most jobs among SMEs.

In terms of ownership structure (MEs), sole proprietorship dominated with 96.2 percent, followed by partnerships (3.3 percent), while faith-based organization was the least represented with 0.4 percent. About 44.4 percent of businesses were owned by individuals aged 36-50 and 26-35 (21.6 percent), while the percentage of male owners was higher at 67.1 percent.

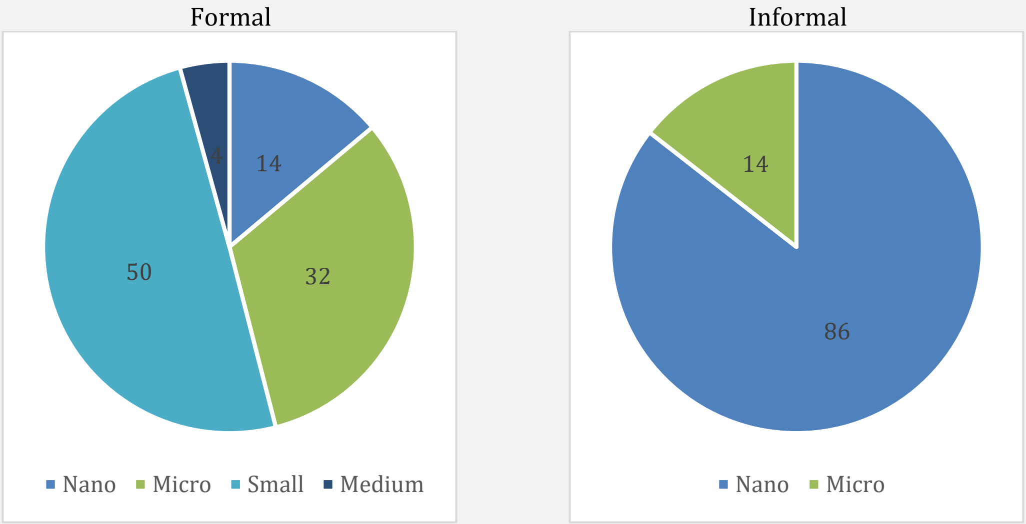
The highest reported educational attainment among MEs was senior secondary school (35.0 percent), while their SME counterparts were mostly college graduates (41.1 percent). There was a significant difference in business registration compliance, at 3.9 percent (MEs) and 50.6 percent (SMEs). In addition, about (53.9 percent) of MEs agreed to have qualified craftsmen available.

The limited financial capacity of entrepreneurs in the MEs was underscored by the fact that most of the businesses (46.2 percent) had start-up capital of less than Nl00,000.00, which was hampered by their limited access to credit. 55.9 percent of the enterprises operated by sole proprietors (SMEs) had access to bank loans while 59.0 percent of the operators used personal savings as a source of capital.

Most raw materials and machinery were locally sourced by SMEs (87.1 percent), indicating active use of local content. 95.0 percent of SME operators used alternative power sources, of which 77.3 percent relied on alternative power sources between 1 and 10 hours per day. This is a recurring factor in high operating costs, which impacts competitiveness.

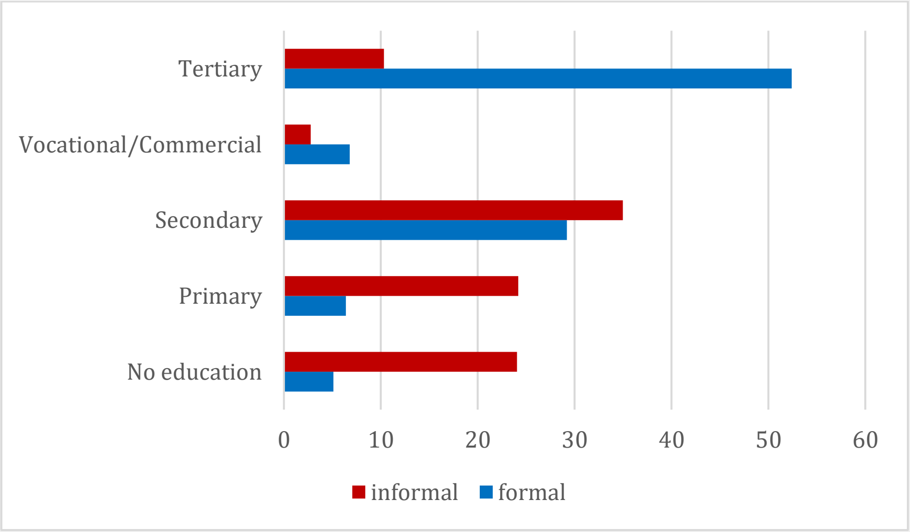
As could be expected, the distribution and marketing of MSME products was dominated by local channels compared to exports. In line with the 2020 outbreak of COVID 19, most MEs reported average monthly sales of less than 50,000.00 Naira.

Figure 2.2. Size Distribution of Nigerian MSMEs (%), 2020



Note: *Authors' elaboration.*
Data Source: *SMEDAN/NBS MSME Survey, 2021.*

Figure 2.3. Highest Qualification Attained by Sole Proprietor of Nigerian MSMEs (%), 2020



Note: *Authors' elaboration.*
Data Source: *SMEDAN/NBS MSME Survey, 2021.*

The recent SMEDAN/NBS MSME survey shows that Nigerian MSMEs contribute almost 50 percent of the country's GDP and account for more than 80 percent of employment in the country. There is no doubt that the sector is central to Nigeria's growth and poverty reduction. However, the sector continues to face challenges that ultimately impact the country's growth.

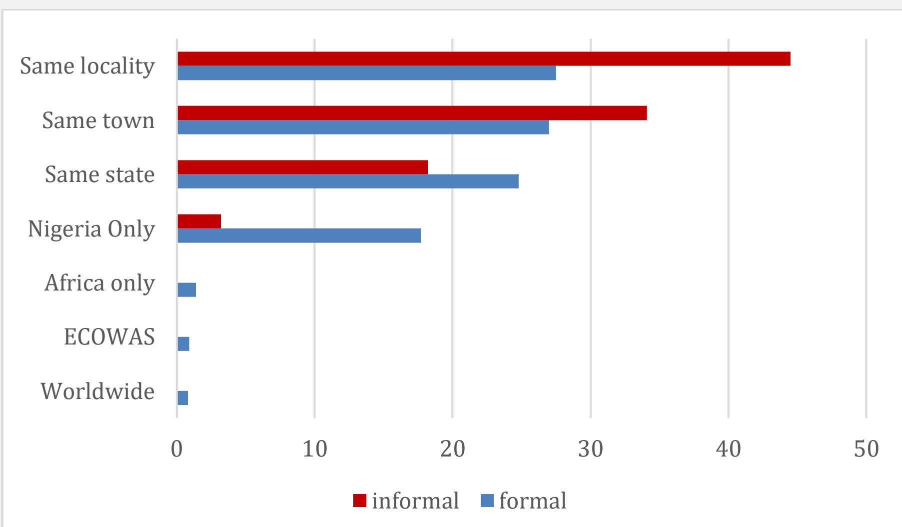
According to the NBS, MSMEs in Nigeria have contributed an average of 48% to the national GDP in the last five years. With a total number of 17.4 million enterprises, they account for about 50 percent of industrial employment and nearly 90 percent of manufacturing employment in terms of number of enterprises. Despite the significant contribution of SMEs to the Nigerian economy, there are still challenges that hinder the growth and development of the sector. Some of the challenges facing the sector include lack of skilled labor, a variety of taxes, and high cost of doing business.

To be precise, Figure 2.3 presents the highest qualification attained by sole proprietor of formal and informal Nigerian MSMEs. In the formal sector, 52.4 percent of the sole proprietor achieved tertiary education, while the sole proprietors that has no education or only primary education are limited to 11.5 percent. In contrast, almost half of sole proprietors have either no education or only primary education in the informal sector. This low education level of sole proprietors makes it more difficult to facilitate informal MSMEs to the formal sector.

Exports of SMEs

Formal and informal MSMEs in Nigeria have different market compositions as presented in Figure 2.4, comparatively. Only 3.1 percent of formal MSMEs in Nigeria export their products while informal MSMEs do not engage in exporting. In other words, MSME exporting is a rare activity in Nigeria. Half of the production of informal MSMEs and one fourth of the formal MSMEs are consumed within the same locality.

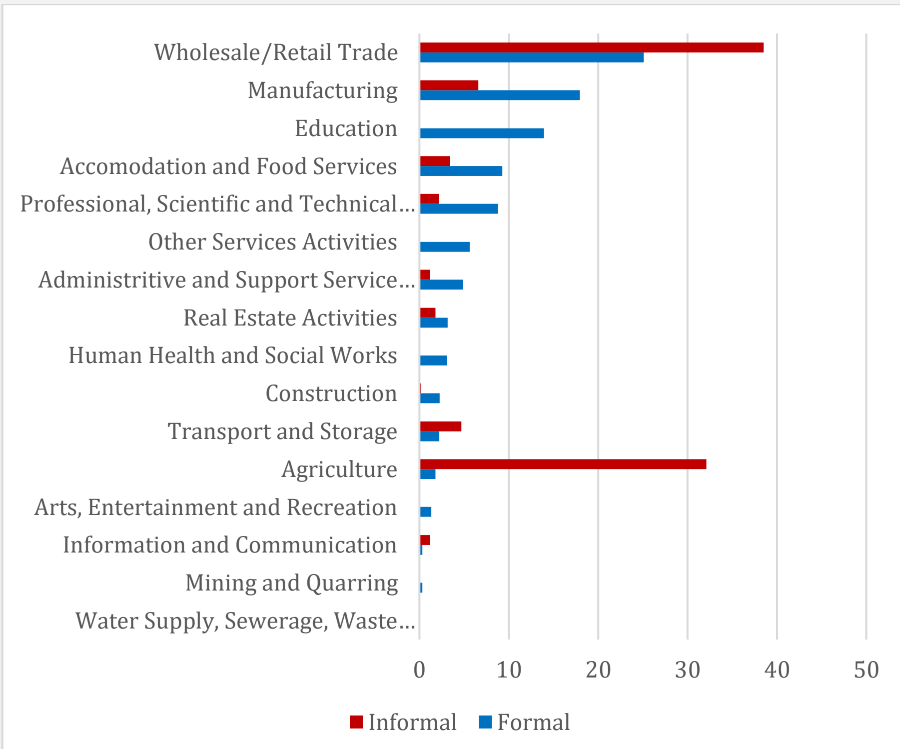
Figure 2.4. Market Destination for Nigerian MSME's Products (%), 2020



Note: *Authors' elaboration.*
Data Source: *SMEDAN/NBS MSME Survey, 2021.*

The top sector where MSMEs produce in Nigeria is wholesale and retail, as it is the case in many countries in the World. The shares of wholesale and retail sector in informal and formal MSMEs are 39 percent and 28 percent, respectively. The second sector that the formal MSMEs operate is manufacturing. Among formal MSMEs 18 percent of the firms operate in manufacturing. Among informal MSMEs, only 7 percent of the companies are in the manufacturing sector while, 32 percent of the informal MSMEs are in agricultural sector.

Figure 2.5. Sectoral Composition of Exports by Nigerian SMEs (%), 2020



Note: *Authors' elaboration.*
Data Source: *SMEDAN/NBS MSME Survey, 2021.*

2.1.1.4 SME Internationalization Incentives and Initiatives

Institutional Framework

Since 2003, numerous efforts have been simultaneously underway to promote MSMEs, ranging from the creation of an agency solely responsible for the promotion and development of this sector (SMEDAN), the implementation of the NEDEP, the creation of the National and State Councils for MSMEs, the revised National MSME Policy, and other funding opportunities from the CBN and other development banks. The NCC, which is primarily tasked with overseeing the implementation of the MSME Policy with the goal of catapulting Nigeria's MSMEs to an internationally competitive status, was established in 2012.

The National Policy on MSMEs, which was revised in 2021 with the aim of creating, nurturing and promoting the necessary conditions for the growth and development of MSMEs, comprises the following seven broad policy/program areas: (i) Institutional, Legal and Regulatory Framework; (ii) Human Resource Development; (iii) Technology, Research and Development; (iv) Extension and Support Services; (v) Marketing; (vi) Infrastructure; (vii) Finance.

The only policy area directly related to MSME internationalization is marketing. No MSME product or service is of value until it has been delivered to a consumer, and continued availability of products/services is only possible if the item has been successfully exchanged at a reasonable margin. Therefore, the issue of marketing is of great importance to the MSME sector in Nigeria. MSMEs have a range of products and services that need to be marketed, but unfortunately, they also face many constraints.

The government is committed to ensuring that the share of MSMEs in local markets is increased through competitive production processes, tender capacity building, improved public procurement, strategic alliances, and stronger linkages between MSMEs and large companies in value chains. The broad approach is a public-private partnership (PPP) in developing domestic and export markets.

Core Institution: SMEDAN

SMEDAN was established in 2003. The mandate of SMEDAN is sustainability and efficiently expediting the advancement and development of the MSMEs. Thereby, MSMEs will contribute to sustainable growth of the country and alleviation of poverty through socio-economic transformation.

The agency positions itself as a one stop store for MSME development. It is the national secretariat of the National Council for MSMEs, the implementation of the National Policy for MSMEs, and publishes an annual report on MSME development.

The mandate of SMEDAN contained in the Enabling Act can be summarized as follows: (i) Stimulate, monitor and coordinate the development of the MSME sub-sector; (ii) Initiate and formulate policy ideas for the growth and development of SMEs; (iii) Promote and facilitate development programs, tools and support services to accelerate the development and upgrading of MSME enterprises; (iv) Leading the way in rural industrialization, poverty alleviation, job creation and livelihood improvement; (v) Linking MSMEs to internal and external sources of financing, appropriate technology, technical skills, and large enterprises; (vi) Promoting and providing access to industrial infrastructure such as facilities, incubators, and industrial parks; (vii) Mediating between MSMEs and the government [SMEDAN is the voice of MSMEs]; (viii) Collaborate with other public and private sector institutions to create a favorable environment for business in general and for MSME activities in particular.

Peripheral Institutions

There are many governmental, non- governmental and international bodies that take an active role in the development of MSMEs in Nigeria. Following is the list of the prominent ones in terms of support programs related to internationalization of MSMEs.

- National Planning Commission (NPC)
- NBS
- Nigeria Export-Import Bank (NEXIM)
- Nigerian Export Promotion Council (NEPC)
- New Partnership for African Development (NEPAD), Nigeria.
- CBN
- International Development Partners such as WB, JICA, the German Technical Cooperation (GTZ), the Department for International Development (DFID), Asian Development Bank (ADB), the United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDO).

Major Support Programs

Program offered by SMEDAN: Sub-contracting and Partnership Exchange (SPX) & NEDEP

SPX is a technical cooperation program established by the UNIDO. The objective of the program is to tie the domestic SMEs with the large and/or international companies in the supply chains in developing countries. Over time, the program turned into a global network composed of more than 75 SPXs. UNIDO and SMEDAN jointly developed SPX Nigeria, in the SMEDAN Business Support Center in Lagos.

The UNIDO SPX program is based on a global best practice methodology and consists of four main components. Supplier profiling The SPX team will work with companies and other stakeholders to map locally manufactured products and supplier production capabilities. These supplier profiles will be made available to key buyer networks. Benchmarking UNIDO will assist SMEDAN in helping suppliers benchmark their individual companies. SPX benchmarking compares a company's operational performance (its results) and practices (how it does things) with those of other companies in its industry. This allows companies to clearly see where they stand compared to international practices in their sector. Supplier capacity-building SPX Capacity-building supports suppliers in meeting requirements through various interventions from technology and development partners. The local SPX team helps establish links between companies and local development agencies. Matchmaking The SMEDAN SPX team, supported by UNIDO, is expected to work directly with key industry buyer networks to identify specific opportunities and then assist in matchmaking with relevant potential suppliers.

The long-term goal is to help SMEs in Nigeria gain a competitive advantage to participate in the global supply chain by recognizing, engaging and involving domestic and foreign buyers operating at the national, regional (in the East African Community (EAC) and Southern African

Development Community (SADC) member states) and international levels. Ultimately, SPX Nigeria aims to improve SME performance through supplier development programs.

NEDEP was launched to address low access to affordable finance and enterprise development services (BDS), as well as inadequate infrastructure or the high cost of doing business. The entrepreneurship/enterprise development training component is implemented under the One Local Government One Product (OLOP) platform, while the access to finance component is provided by the Bank of Industry (BOI) and skills acquisition by the Industrial Training Fund (ITF).

NEDEP, coordinated by SMEDAN, draws on empirical research based on the experience of successful similar business development initiatives in Africa and Asia and the OLOP pilot projects in Kano and Niger states.

Programs offered by NEPC: Export Development Fund & Export Expansion Grant

The NEPC offers export support programs for exporters. These programs are intervention programs aimed at improving product quality for specific sectors. These programs aim to help exporters increase their competitiveness in international markets through capacity building and infrastructure provision. There is no cost for export promotion programs.

The Export Development Fund (EDF) Scheme was developed by the Nigerian government aiming at providing financial assistance to newly exporting companies. The Development Fund provides financial assistance to export enterprises for participation in training, symposiums, seminars and workshops, promotion and publicity campaigns in foreign markets, conducting conformity assessments in the areas of packaging, labeling, standardization, accreditation, testing, metrology and certifications, pre-shipment quarantine assistance, Gathering trade information, conducting market research studies in foreign markets, contracting experts in product customization and design, trade fairs or exhibitions, contact promotion programs, buyer-seller meetings and investment forums, providing capital for joint export groups and cooperatives with mutual guarantees.

The Export Expansion Grant is provided to already exporting companies for increasing their exports and enhancing their competitiveness globally. To be eligible to receive this grant, companies need to prove a minimum of 5 million Naira export sales and they should be operating in manufacturing sector. The amount of grant that exporters would get is around 5 percent and 15 percent of their annual export value, varying with the product category. Successful exporters are paid through the export credit certificate instrument.

Program offered by NEXIM: Small and Medium Enterprise Export Facility

The Small and Medium Enterprise Export Facility (SMEEF) is designed to support export-oriented SMEs in the non-oil export value chain through NEXIM. The SMEEF aims to promote and increase targeted financing to SMEs to expand Nigeria's export basket and facilitate industrialization for value-added exports.

The objectives of the SMEEF are to: (i) Improve access to concessional financing for export-oriented SMEs, clusters, and associations to expand and diversify the non-oil export basket; (ii) Attract new investments and promote re-investment in value-added non-oil exports; (iii) Revitalize export-oriented SMEs, clusters and associations to create and sustain more jobs in the non-oil export sector in Nigeria; (iv) Support SMEs, clusters and associations to produce seasonal commodities such as cocoa beans, cashew nuts, sesame seeds, ginger, hibiscus flowers etc. for year-round export trade and improved profit margins; (v) support SMEs, clusters, and associations to increase and expand operational capacity for exports and improve production systems; (vi) diversify and increase the contribution of non-oil export revenues and value-added exports to sustainable economic development; (vii) expand the scope of export financing instruments and complement other non-oil export financing programs; (viii) increase foreign exchange generation in the Nigerian economy.

2.1.1.5 Conclusion of Review

Challenges

Despite the great efforts of the Nigerian government to ensure the development of MSMEs, there are challenges that affect the performance of MSMEs.

- There are difficulties faced by MSMEs in accessing financial resources to carry out their production, investment and exports. Inadequate and limited access to finance for MSMEs, collateral, high transaction costs, and the complexity of official transactions are among the main problems faced by MSMEs in accessing finance.
- The inability of MSMEs to employ skilled labor because of insufficient financial resources reduces their production and efficiency and prevents their internationalization.
- The organizational problems resulting from the lack of management skills and experienced manpower is one of the most important difficulties that reduce the internationalization performance of MSMEs. As the knowledge and skills of MSME founders and managers increase in Nigeria, they can make more accurate decisions and increase the efficiency and profitability of their enterprises.
- The habit of making short-term investments, where the profits of entrepreneurs do not turn into long-term investments, is also a major obstacle to the development of MSMEs.
- MSME development is hampered by the inadequate and unstable electricity supply, telecommunications infrastructure, transportation routes, and water supply infrastructure.

Lessons Learnt

- The establishment of SMEDAN in Nigeria ensures that MSME development policies are implemented more effectively. In addition to SMEDAN, there are the National and State Councils for MSMEs, which advocate for MSME development, the CBN, which has the coordinating role for providing financing needs, and the National Consultative

Committee (NCC), which is responsible for implementing the National Policy for MSMEs. Thus, the institutional structure that enables the development of MSMEs has been established in Nigeria. In addition, the National Policy for MSMEs has established the necessary action plans and programs to ensure the growth and development of MSMEs. Thus, the planning of the actions to be taken has already been done.

- Despite the establishment of an institutional structure for MSMEs in Nigeria, the definition of plans and programs with a policy document, and the fact that Nigeria has natural resources, especially oil and gas, it is evident that these advantages cannot be fully exploited for the internationalization of MSMEs.

Needs for Further Improvement

- Providing and facilitating MSMEs access to finance will ensure the internationalization of MSMEs. For this reason, collateral should be provided for MSMEs, the cost of credit transactions should be reduced, and banking transactions should be simplified as much as possible.
- It should be ensured that MSMEs use skilled labor to increase their production and efficiency.
- Developing the knowledge and skills of managers is of great importance for the development of MSMEs, as it enables them to make the right decisions. On the other hand, necessary information and training should be provided and infrastructure should be developed so that MSMEs can market their products.
- One of the most critical elements in the development and internationalization of MSMEs is the realization of a change in thinking and culture that enables entrepreneurs to turn to long-term investment.
- The continuity of electricity supply, which is an important source of energy for production, should be ensured, and telecommunications and transportation infrastructure should be developed for successful internationalization.

2.1.2 Pakistan

2.1.2.1 Background

Pakistan, whose official name is the Islamic Republic of Pakistan, is a country in South Asia with a population of over 212.2 million and an area of 881,913[2]. Pakistan borders the Arabian Sea to the south, India to the east, Afghanistan to the west, Iran to the southwest and China to the northeast.

Pakistan gained its independence from India on August 14, 1947 under the leadership of Muhammad Ali Jinnah. In the early years of its independence, Pakistan faced many economic difficulties. After the Korean War in 1952, the merchant class began to rise. From 1958to 1968, Pakistan's economy grew three times faster than that of other countries in South Asia, growth rates exceeded 20 percent annually, and the agricultural and industrial sectors developed significantly. In the decade following the 1970s, global stagnation in exports, the partition of East Pakistan, and floods and locust attacks in 1974 caused growth to fall from 6.8 percent per year in the 1960s to 4.8 percent per year in the 1970s. In the environment created after the Soviet Union invaded Afghanistan, the country received substantial foreign aid and GDP grew at an average rate of 6.6 percent per year under General Zia. In 1982, Pakistan first began implementing structural adjustment programs supported by the International Monetary Fund (IMF). In the late 1980s, the country faced budget and foreign exchange deficits due to the decline in the industrial sector and the decrease in foreign aid, and the WB and IMF forced Pakistan to reduce public spending and increase taxes. This led to delays in development projects.

After September 11, between 2001 and 2007, the investment ratio increased by 17.2 percent of GDP and rose to 23.0%, domestic debt decreased from 17.8 percent of GDP to 16.1 percent, and foreign aid was provided to Pakistan during this period. In the post-2007 period, growth declined due to the unrest in Pakistan, the global financial crisis, and floods, and inflation increased. After 2013, the current account deficit of Pakistan's economy increased, the agricultural sector was neglected, and the national debt increased (Mudasar, 2021).

Today, Pakistan is the 44th largest economy in the world and ranks 108th in the World Bank's Doing Business Index. The Pakistani economy has had regular ups and downs. The main reason for these ups and downs is the instability of the economy due to political instability in the country. Fiscal contraction, exchange rate pressures, inflation, and shortages in the energy sector led to an increase in economic uncertainty. The Pakistani economy, which had fallen into depression due to the crisis during the pandemic when the curfew was imposed, began to recover. However, the Omicron variant, the change of government in Afghanistan, and the Russian-Ukrainian war led to an increase in energy and food prices. These events in the world have had a negative impact on the Pakistani economy (Finance Division Government of Pakistan, 2022) Key indicators for the Pakistani economy are shown in Table 2.3.

Table 2.3. Key Indicators of the Pakistan Economy

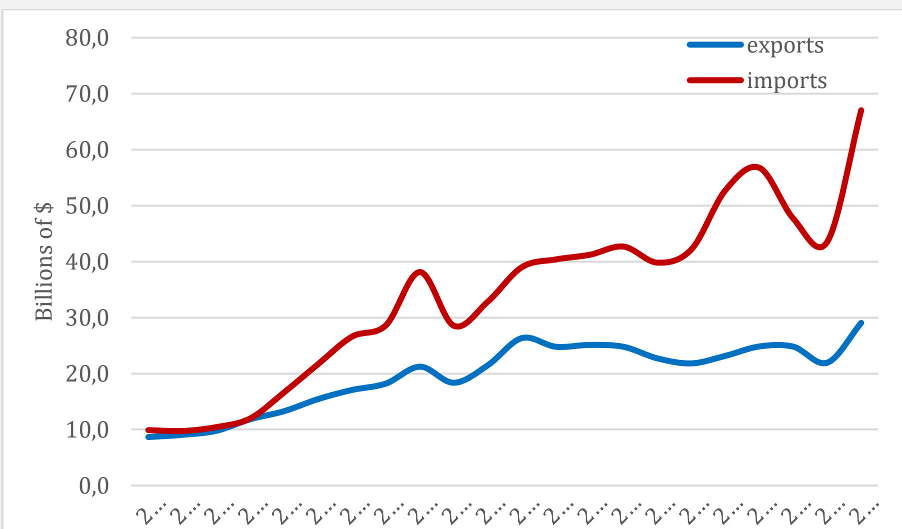
	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	271	279	305	315	279	263	--
GDP per capita in current prices	1,357	1,368	1,465	1,482	1,289	1,189	--
Growth rate of GDP (%)	4.73	5.53	5.55	5.84	1.14	-0.94	--
Inflation rate (%)	2.53	3.77	4.09	5.08	10.58	9.74	2.53
Unemployment rate (%)	3.57	3.78	3.92	4.08	3.54	4.30	3.57

Source: *World Development Indicators Database*

2.1.2.2 Foreign Trade

Pakistan's economic growth depends largely on its exports. Increasing exports can finance imports, pay down debt and solve the balance of payments problem. To reduce the current trade deficit, it is essential to implement an effective import substitution strategy and an export-oriented export policy. Since 2000, both Pakistan's exports and imports have risen steadily in parallel with the expansion of world trade (Figure 2.6). As a result, Pakistan's exports, which amounted to $ 8.7 billion in 2000, increased to $29.1 billion in 2021, and imports, which amounted to $ 9.9 billion, increased to $67 billion.

Figure 2.6. Exports and Imports of Pakistan, 2021



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

The textile sector accounts for 60.9 percent of Pakistan's total exports, food for 17.4 percent, and other manufactured products for 13.7 percent. The decline in Pakistan's exports due to the pandemic has increased, reaching $29.1 million in 2021, due to the introduction of appropriate restrictions after 2020, shifting demand from neighboring countries to Pakistan, and subsidies/facilitation. Petroleum products account for 20.1 percent of Pakistan's imports, engineering products 18 percent, agriculture and chemicals 16.5 percent, food 14.8 percent, and textiles 5.7 percent (PBS, 2021).

2.1.2.3 SME and Internationalization

SMEs finance large industries, reduce poverty, and grow the national economy. SMEs play an important role in the economic, industrial and social development of Pakistan. Identifying SMEs that are important to Pakistan's economy is useful for collecting and organizing data to understand the role of SMEs, assessing the impact of SME policies, and providing information for designing SME support programs. In addition, a nationally accepted definition of SMEs facilitates the work of numerous SME organizations, such as the SMEDA, the SBP, the Small Industries Corporation (SIC), the FBR, the Securities and Exchange Commission of Pakistan (SECP), and others, by ensuring that the term "SME" refers to a common and easily understood metric.

Based on the criteria of number of employees, assets and turnover, SMEs in Pakistan are defined as small enterprises, medium enterprises and start-up enterprises. Enterprises with annual sales of less than PKR 150 million are classified as small enterprises, and enterprises with annual sales between PKR 150 million and PKR 800 million are classified as medium enterprises (Table 2.4). Small enterprises with an age of more than 5 years are referred to as start-up small enterprises, and medium enterprises with an age of more than 5 years are referred to as start-up medium enterprises (SMEDA, 2022).

Table 2.4. SME Definition of Pakistan

Category	*Turnover (PKR)*
Small Enterprises	*Up to PKR 150 million*
Medium Enterprises	*Above PKR 150 million to PKR 800 million*
Start-up	*A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME*

Source: *SMEDA, SME Policy 2021.*

5,110,328 workers are employed in the manufacturing sector, accounting for 90.27 percent of the manufacturing workforce for 2020-21. Manufacturing employees account for 14.9 percent of the total workforce, as shown in Table 2.5.

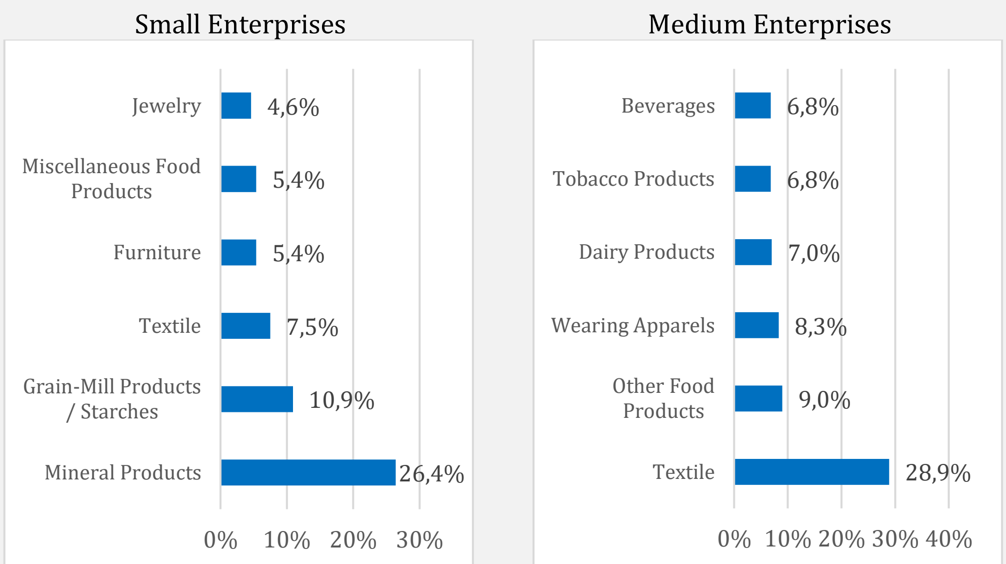
Table 2.5. Employees in Manufacturing SMEs, 2020-21

DESCRIPTION	2020-21
Number of employees in manufacturing SMEs	5,110,328
Manufacturing sector share of employment in employed labor force	14.9%
Manufacturing SMEs share in Pakistan’s manufacturing sector employment	90.3%

Source: *Pakistan Bureau of Statistics (PBS), 2021.*

The percentage share of the main SME sectors in the total manufacturing contribution to GDP is shown in Figure 2.7. The contribution of small enterprises to GDP is accounted for by jewelry 4.6 percent, miscellaneous food and furniture 5.4 percent, textiles 7.5 percent, cereal products/starch 10.9 percent, mineral products 26.4 percent. Medium enterprises contribute to GDP with beverages and tobacco products 6.8 percent, dairy products 7 percent, clothing 8.3 percent, miscellaneous food products 9 percent, textiles 28.9 percent.

Figure 2.7. Percentage Share of Top SME Sectors to GDP, 2021



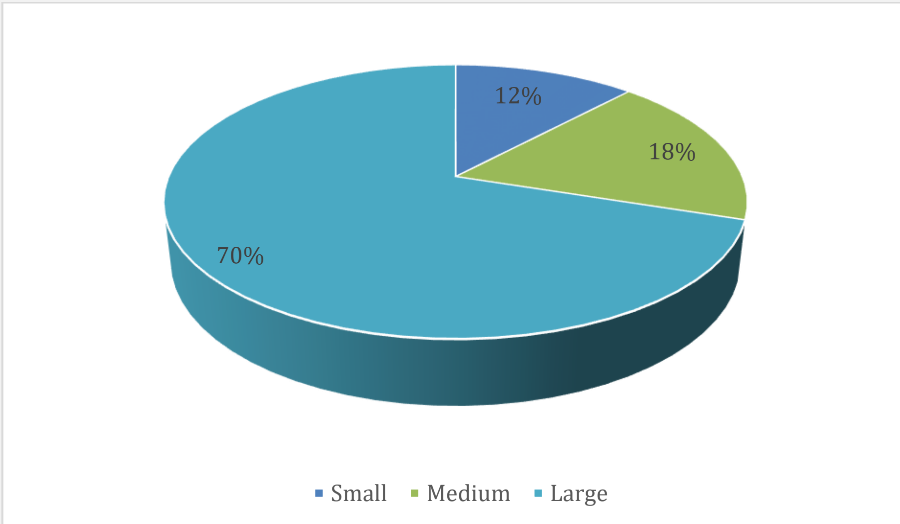
Note: *Authors' elaboration.*
Data Source: *SMEDA and RRI&A, 2022.*

Exports of SMEs

A significant 70 percent of Pakistan's exports are made by large companies. SME exports account for 30 percent of Pakistan's total exports, as shown in Figure 2.8. This shows that the share of SMEs in Pakistan's exports is small.

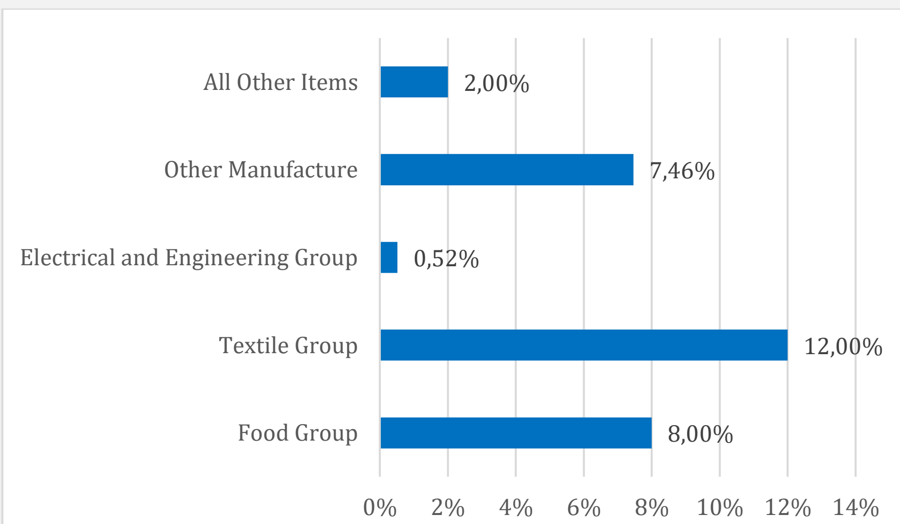
The distribution of SME exports by product group is shown in Figure 2.9. It shows that the group of textiles accounts for 12 percent, the group of food products accounts for 8 percent, the group of other products accounts for 7.5 percent, all other items accounts for 2 percent, and the group of electrical engineering accounts for 0.5 percent.

Figure 2.8. Share of SMEs in Export, 2020



Note: *Authors' elaboration.*
Data Source: Source: *SMEDA and RRI&A, 2022.*

Figure 2.9. Sectoral Composition of Exports by Pakistan SMEs (v), 2020 (out of 30%)



Note: *Authors' elaboration.*
Data Source: Source: *SMEDA and RRI&A, 2022.*

2.1.2.4 SME Internationalization Incentives and Initiatives

Institutional Framework

Since 1998, the Pakistani government has been trying to create an institutional structure to ensure the growth and development of SMEs. The National SME Policy 2021 has been prepared to carry out the necessary strategies and studies for the development and growth of SMEs. The SMEDA and the National Coordination Committee have been established to implement the National SME Policy 2021. In addition, simplification of procedures for SMEs and tax exemptions are being implemented by the FBR and financing for SMEs by the SBP.

The Government of Pakistan aims to improve the business and investment environment, provide access to credit for all enterprises, provide human resources, technology and infrastructure to increase SME competitiveness and exports of high value-added products. The National SME Policy 2021, prepared to achieve this goal, is a basic framework to ensure its implementation in four key areas: (1) Macro policy and regulatory environment (2) Supply side challenges (3) Demand side challenges (4) Institutional mechanisms (SMEDA, 2022).

Core Institution: SMEDA

SMEDA is an autonomous institution under the Ministry of Industry and Production (MOIP), established in 1998 for the development and growth of SMEs. SMEDA's objective is to formulate policies for SME development, advise the government, facilitate business development services, ensure the development of associations/chambers to represent SMEs, analyze policies established for sector development, organize seminars, workshops and training, provide support for SME development programs and projects, and identify service opportunities considering the supply/demand gap.

Peripheral Institutions

There are many institutions and organizations playing an active role in the development and growth of SMEs in Pakistan. Studies are being conducted under the coordination of the MOIP. SMEDA is involved as a support agency for SMEs. Trade Development Authority of Pakistan (TDAP) is implementing many programs and projects to increase exports of SMEs. The FBR grants tax reductions and exemptions to SMEs that want to increase their exports. The SBP conducts studies to meet the financing needs of SMEs.

Major Support Programs

Programs offered by The Trade Development Authority (TDAP)

The Export Promotion Bureau (EPB), established in 1963, was transformed into TDAP in 2006. TDAP is Pakistan's supreme authority concerned with export growth and development.

TDAP's mission is to develop and promote exports by looking at them as a whole. It helps promote export products, ensure coordination and interaction among export players, increase the number of exporting enterprises, increase the supply capacity required for export, develop export culture, increase foreign investment for export development, and advise the government on trade diplomacy.

To achieve TDAP's goals, TDAP conducts programs, projects, and activities. TDAP organizes domestic and international trade fairs and exhibitions for exporters, organizes trade delegations, provides exporters with access to the international market, conducts product and market research, organizes training and seminars, and cooperates with international economic and trade organizations (TDAP, 2022).

Program offered by FBR: Manufacturing Bond Rules (MB), Duty and Tax Remission for Exporter (DTRE), The Export Oriented Units (EOUs) and Export Facilitation Scheme (EFS) (2021)

The FBR regulates three different taxes as sales tax, customs duty, and income taxes. FBR is working on four different schemes to increase Pakistani exports as MB, DTRE, EOUs and EFS (2021). These schemes are of great importance for the development of exports of SMEs in Pakistan (TDAP, 2022).

The MB 2001 scheme

The MB 2001 reduce or exempt taxes required for the manufacture of finished products to be exported and for commercial products to be imported from abroad. These tax deductions or exemptions can be claimed with the licenses obtained by companies that meet certain criteria. If SMEs also meet these criteria, they can also benefit from these tax reductions or exemptions (TDAP, 2022).

DTRE scheme

Under the DTRE scheme, companies do not pay taxes during a certain period if they undertake to use the inputs for the export goods. Under this scheme, the contracts concluded by the exporting companies and their export performance are considered. SMEs do not pay taxes if they also meet the criteria for the scope of this scheme (TDAP, 2022).

The EOUs Rules

In order to increase the exports of SMEs and export-oriented units (EOUs), the basis of this scheme is that all inputs of these companies, including capital goods, are exempt from tax. To benefit from this plan, companies must meet the EOU criteria. There are no sector-specific restrictions to obtain this status (TDAP, 2022).

EFS (2021)

The FBR released the EFS -2021 on July 9, 2021, which brings together all plans for all exporters to boost Pakistan's exports. EFS is effective from August 14, 2021. Under this plan, the simplified single window system minimizes document requirements and aims to make it easier for exporters to access these applications. The difference between this scheme and other schemes is that the other schemes have a specific export target, whereas EFS does not have a fixed target (TDAP, 2022).

Program offered by the SBP: SME Asaan Finance (SAAF) Scheme

SMEs must provide collateral to banks to access funding. Due to a lack of collateral and high delivery costs, SMEs may not be able to provide this collateral, which means that SMEs' financing needs cannot be met. To address this issue, the SBP has taken a new approach and prepared the SAAF in collaboration with the Government of Pakistan. SAAF provides a loan guarantee that combines refinancing and risk protection for SMEs that are credible but cannot meet the collateral required by banks. The program provides facilitation for SMEs as well as facilitation for interested banks (TDAP, 2021).

2.1.2.5 Conclusion of Review

Challenges

There are some challenges that need to be overcome for SMEs in Pakistan to develop and increase their exports. If these difficulties are removed, it will be possible for SMEs to develop and increase their exports.

- Although the SBP has made efforts to increase SMEs' access to finance, access to finance is still a major hurdle for SMEs in need of internationalization.
- The lack of high-quality human resources that SMEs need to increase their productivity creates hurdles for the internationalization of SMEs in Pakistan. It is very important that SMEs receive vocational training for their internationalization efforts. However, compared to large companies, it is difficult for SMEs to train workers and retain trained workers due to their insufficient financial capital.
- Development of IT support system is of great importance for SMEs to increase their efficiency and success to export. The use of technology by SMEs helps to increase their efficiency, reduce production costs, and gain access to foreign markets. The low technological capacity of SMEs is an important obstacle to their development in Pakistan.
- Pakistan has gone through difficult times in the new millennium, especially after September 11. The declining security in some regions of the country has negatively affected SMEs that increase their production quality by benefiting from the network of large enterprises. In this respect, the erosion of large enterprises in Pakistan has had negative consequences for SMEs, such as cessation of growth, unemployment of skilled labor, and a reduction in living principles (Amir, Ali, and Ahmad, 2020).

Lessons Learnt

- The MOIP is important for conducting SME development studies in Pakistan. SMEDA is an autonomous institution under the MOIP. TDAP, FBR and SBP are working for SME development. Thus, an institutional structure has been established in Pakistan for the development of SMEs.

- However, setting up the institutional structure and defining what should be done is not enough by itself. In order to increase the efficiency, production and international competitiveness of SMEs, an environment of trust must be created in the country. If the environment of confidence is not fully created, the lack of necessary human and physical capital will lead to a decline in investment and production, financial resources will be reduced, and infrastructure cannot be fully built. Therefore, the development of SMEs should be considered as a whole. Otherwise, the institutional structures have difficulty in fulfilling their tasks, and the measures of the National SME Policy cannot be implemented.

Needs for Further Improvement

- The development of SMEs can be ensured by providing soft loans to SMEs and facilitating their access to finance, reducing the tax burden and encouraging their investment (Amir et al., 2020).
- In order for SMEs to grow and develop, it is also necessary to train a skilled workforce, ensure cheap and continuous access to energy, and create a safe environment. Nowadays, the adoption and use of technology is very important to compete in the international arena. Therefore, training workers who can use technology will increase the efficiency, production and exports of SMEs. Developing national SME policies that provide a roadmap of what needs to be done to develop and internationalize SMEs is important, but not sufficient. The implementation of the measures contained in this policy text will achieve the purpose of the elaboration of the national SME policy. Therefore, the implementation of these measures must be ensured and followed up.

2.1.3 Poland

2.1.3.1 Background

Poland is a country in Central Europe with a population of over 38 million people. Reestablished as a nation in 1918 but devastated by two world wars, Poland suffered enormously during the 20th century. World War II was particularly devastating, and subsequently Poland lost its independence and became one of the communist satellite states of the Soviet Union. In May 1989, the Polish government fell along with other communist states throughout Eastern Europe, initiating Poland's swift conversion into a democracy.

With the transition to ownership of private property and a market economy, Poland has progressively involved in international organizations. In 1991 it became a part of the Council of Europe, in 1995 a member of the WTO, and in 1996 the OECD. Together with Hungary and the Czech Republic, the country became a full member of NATO in 1999. Poland has been an associate member of the EU since 1994 and became a full member in 2004.

The economic rise of Poland is remarkable. The country is labeled by many as a prosperous post-communist state. Its GDP and GDP per capita tripled in real terms from 1990 to 2020 according to World Development Indicators. Employment and income growth have been broad-based, and regions lagging behind have caught up. During these changes, the coefficient of income inequality - the Gini - has not increased. Poland exhibits one of the lowest Gini coefficients among high-income countries since 2000.

How did Poland do it? The World Bank Group (2017) notes that after the "big bang" restructurings of the conversion from communism, Poland put in place the right institutions, such as the rule of law, voice and democratic accountability, private property rights, and elementary market institutions. It then employed EU accession and membership to strengthen them. Political consistency and continuity were guaranteed by a broadly shared concept of a market economy that is socially responsible. Comprehensive and healthy macroeconomic policies provided steadiness and flexibility. During the global financial crisis of 2007-2008i Poland was the only European country to enjoy positive growth and to entirely avoid a crisis in the banking sector. At the same time, the country was successful in connecting to regional and global markets -even at the SME level- while safeguarding domestic competition.

Finally, the Polish economy has essentially managed to evade the gigantic economic crisis caused by the COVID-19 pandemic in Western Europe. As a well-diversified economy, Poland has come to light as one of the most resilient countries in the EU, with a declining unemployment rate in 2020 and a relatively small decline in GDP of 2.5 percent, the first decline in output since 1991. Table 2.6 provides an overview of recent trends in the Polish economy.

Table 2.6. Key Indicators of the Polish Economy

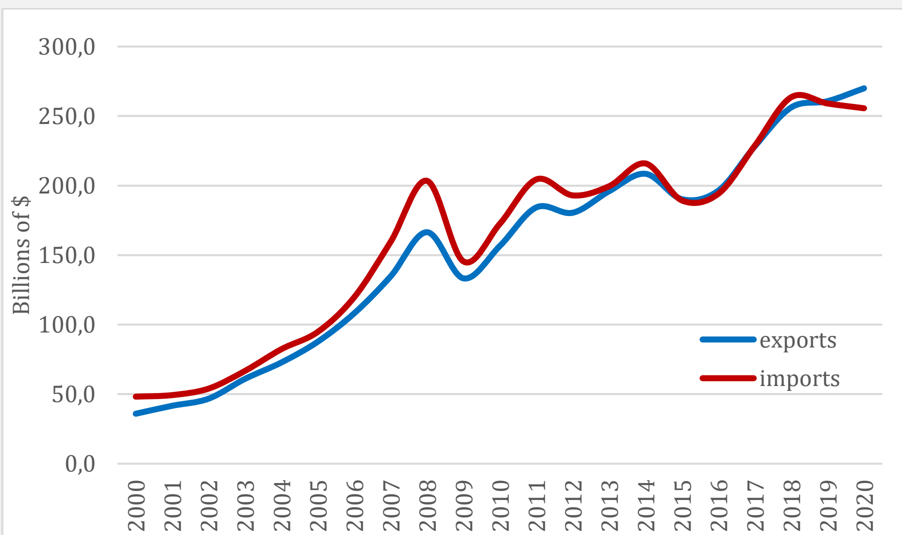
	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion 2015 US$)	478	473	527	587	597	597	--
GDP per capita in current prices (2015 US$)	12,578	12,447	13,865	15,468	15,732	15,742	--
Growth rate of GDP (%)	4.24	3.14	4.83	5.35	4.74	-2.54	--
Inflation rate (%)	-0.87	-0.66	2.08	1.81	2.23	3.37	5.06
Unemployment rate (%)	7.50	6.16	4.89	3.85	3.28	3.16	3.37

Source: *World Development Indicators Database*

2.1.3.2 Foreign Trade

Poland's exports have grown significantly from US$36 million in 2000 to US$167 billion in 2008. After the global financial crisis, exports declined for only one year and recovered in 2011. If we disregard the slight declines in 2012 and 2015, exports increased significantly over the 2011-2020 period. Figure 2.10 shows that Poland's foreign trade turnover has increased almost tenfold since the beginning of the last decade.

Figure 2.10. Exports and Imports of Poland, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

Poland's main export products are electronic, mechanical and transport equipment, steel and base metals, plastics, rubber and chemical products, food (meat, dairy products), furniture and white goods.

Poland's most important export partner is Germany, with a share of 29 percent of total exports in 2020. After Germany, Poland's second and third largest export partners are the Czech Republic and the United Kingdom, with a share of about 6 percent of total exports, which is significantly lower than Germany's share. Overall, more than 70 percent of Poland's exports go to the EU.

Similar to exports, Poland's imports increased from US$48 billion in 2000 to US$203 billion in 2008. After the crisis, imports recovered but fluctuated around 2008 levels for several years, with a significant increase in 2017-2020.

Poland's main imports are vehicles and parts, crude oil, packaged medicines, and radio equipment.

Similar to exports, Germany is Poland's largest partner in terms of imports. Imports from Germany account for about 22 percent of total imports. However, it is important to note that Poland has a trade surplus with Germany of about $ 12 million. China is Poland's second largest import partner and its share in total imports is 14.4 percent. Another EU country, Italy, is the third country with the highest share in Poland's imports.

In the early 2000s, Poland had a small trade deficit. The deficit widened until the global financial crisis, reaching about US$40 billion in 2008. After the crisis, the deficit decreased. Poland achieved trade surpluses in 2015-2020 (excluding 2018).

2.1.3.3 SMEs and Internationalization

Poland adopts the EU's SME definition, which is contained in Annex I of Commission Regulation (EU) No. 651/2014. The regulation defines the different types of enterprises and establishes a transparent method for calculating the financial limits and the number of employees. For the consideration of micro, small or medium-sized enterprises, the requirement of the number of employees and the business volume (turnover) indicated in Table 2.7 must be met.

Table 2.7. An Overview of the SME Definition of Poland

Category	Employment Size	Turnover (EUR)
Micro Enterprises	Less than 10 persons	<=2 million EUR
Small Enterprises	Less than 50 persons	<=10 million EUR
Medium Enterprises	Less than 250 persons	<=50 million EUR

Source: *PARP Web Page https://kwalifikator.parp.gov.pl/ .*

SMEs play a fundamental role in economic growth and promoting competitiveness at the European level. More than 99 percent of enterprises in the EU-27 are SMEs, employing over 83 million people and generating more than half of the added value of the entire economic structure (EU, 2022).

In Poland, SMEs account for 99.8 percent of enterprises, of which MEs have the largest share at 95.2 percent, while SMEs have shares of 4.1 and 0.7 percent, respectively (Table 2.8).

Table 2.8. Polish Businesses by Size, 2021

By Size	Number of Businesses	%
SMEs (0-249)	2,040,017	99.8
Micro (1-9)	1,942,144	95.2
Small (10-49)	83,770	4.1
Medium (50-249)	14,103	0.7
Large (250+)	3,110	0.00
TOTAL	2,043,127	100.0

Source: *EU SME Performance Review Report Web Page.*

Figure 2.11. Contribution of Polish SMEs to the Economy

Source: *OECD SME and Entrepreneurship Outlook, 2021.*

In terms of economic size, Polish SMEs account for about 52 percent of value added and 67 percent of total business employment. (Figure 2.11). Micro, small, and medium-sized enterprises have very similar shares of value added generated. However, it is MEs that account for 34 percent of all jobs in Poland's economy.

Exports of SMEs

The process of internationalization of the Polish economy has been continuing for many years in an upward trend, which is expressed, among other things, in the growing share of exports of goods and services in GDP from 39.9 percent in 2010 to 60.7 percent in according to PARP (2022). This indicates the speed of the process of integration of the Polish economy into the global economy, especially into the EU, and that the Polish economy is entering a state of deep interdependence with other countries.

Low labor costs, nearness to European markets and GVC integration along with strong productivity gains explain most of the internationalization and export performance in Poland, according to Goujard and Guerin (2021). Even during the global trade slowdown of 2011-2016 and up to the COVID-19 crisis, Polish exports had continued to gain significant momentum and increase their market share. More than 40 percent of domestic employment now depends on international markets.

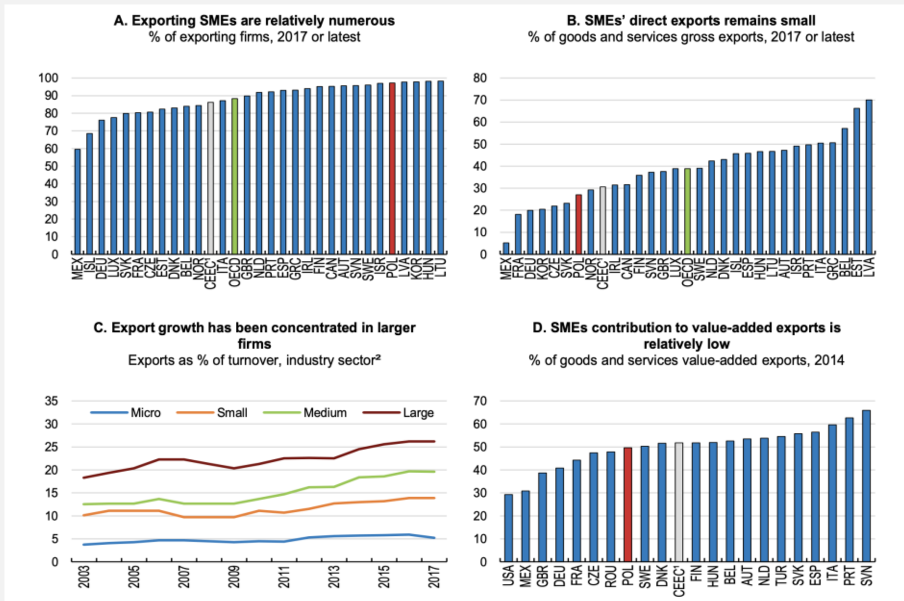
In the meantime, increasing openness of Polish trade and integration into GVCs facilitated technology transfer and fostered employment and productivity gains. Between 1995 and 2011, Poland rapidly integrated into GVCs and received significant FDI in manufacturing. Foreign affiliates (FAs) played a key role in this development process, and recent OECD estimates indicate that they are still responsible for 40 percent of GDP (Cadestin et al., 2019). As a result, southwestern Poland experienced rapid growth in GDP and incomes, particularly through the automotive sector. Indeed, domestic sourcing of intermediate goods by FAs largely benefited domestic firms, most of which are SMEs (Hagemejer and Kolasa, 2011).

Nevertheless, the internationalization of Polish SMEs has proved to be very heterogeneous as shown in Figure 2.12.

As Goujard and Guerin (2021) note, Polish SMEs seem to lag behind in different forms of internationalization. The share of SMEs in value-added exports is higher because SMEs export indirectly through upstream linkages with larger exporters, but the importance of SMEs in value-added exports remains below the average level of Hungary, Czechia, and Slovak Republic or that of Italy, Spain, and Portugal. In fact, about 60 percent of SMEs' indirect exports reach foreign markets through large firms, and the remaining 40 percent through other SMEs. When they do export directly, Polish SMEs are more likely to be occasional exporters than permanent exporters, and they export to markets closer to home.

This uneven internationalization has been one of the causes of increase in the intensity of vulnerable people in some regions and low levels of economic activity. As in other OECD countries, exports and foreign capital were associated with faster productivity growth at the sector level, and internationalized firms outperformed non-internationalized firms through both exports and foreign direct investment. This exacerbated the problems of lagging firms and regions, as long-term unemployment, poverty, poor health, and low social mobility often go hand in hand (OECD, 2019).

Figure 2.12. Heterogeneity of SME Internationalization in Poland



Source: *Goujard and Guerin (2021, p.8).*

One of the basic measures of the internationalization of the economy is the number of companies engaged in exports, which remains low in Poland compared to the EU average. PARP (2022) estimates for 2020 that only about 97,800 Polish companies (4.3 percent of the total) sell products abroad. Exporters of services are even smaller, at 20,400 firms (0.9 percent of the total). These low percentages are largely due to the very poor performance of MEs.

The same source indicates that the average Polish exporter sells little abroad. The average exporter of products in Poland in 2020 sold abroad goods worth 10.8 million PLN, and the exporter of services - worth 12.6 million. MEs clearly stand out from the other groups in this regard. The value of exports of an average micro-exporter amounted to 0.7 million PLN in goods and 3.1 million PLN in services. Larger companies performed much better - an average small exporter sold products worth 3.3 million PLN and services worth 5.6 million PLN abroad, the value of sales of an average exporter was 19.1 million PLN and 12.3 million PLN, respectively, and large: 203 million PLN and 49.6 million PLN.

Polish companies generate a relatively high percentage of their revenues from exports. Table 2.9 shows that in 2020, 25 percent of companies' revenues came from the export of goods and services. The weakest results in this regard are achieved by the MEs (5.1 percent), significantly better by small (16 percent), medium (21.4 percent) and large enterprises (26.6 percent). In 2010-2020, there is a significant increase in the internationalization of business activity, measured by the share of exports of goods and services in total revenues of enterprises. In 2010-2020, the share of exports in the revenues of Polish companies systematically increases from 17.6 percent in 2010 to 25 percent in 2020 (PARP, 2022).

Table 2.9. The Share of Exports of Goods and Services in Total Firm Revenues, %

Year	Total	Micro	Small	Medium	Large
2010	17.6	4.5	11.1	13.7	21.3
2011	18.3	4.4	10.7	14.7	22.5
2012	19.3	5.3	11.5	16.2	22.6
2013	20.8	5.6	12.7	16.3	22.5
2014	21.6	5.7	13.0	18.4	24.5
2015	22.6	5.8	13.2	18.6	25.6
2016	23.6	2.9	13.9	19.7	26.2
2017	24.0	5.2	13.9	19.6	26.2
2018	24.1	4.9	14.5	19.2	26.5
2019	24.4	4.7	15.3	20.0	26.7
2020	25.0	5.1	16.0	21.4	26.6

Source: *PARP Web Page https://www.parp.gov.pl/component/publications/publication/raport-o-stanie-sektora-malych-i-srednich-przedsiebiorstw-w-polsce-2022.*

2.1.3.4 SME Internationalization Incentives and Initiatives

Institutional Framework

The international development of Polish SMEs has long been considered an important factor in the country's economic progress. Since the start of the new millennium, both central and regional public administrations have implemented numerous programs to facilitate such expansion, providing both financial and advisory support. With the growing experience of both the public and private sectors, the quality of these efforts has improved. In recent years, there has been a renewed focus on developing markets outside the EU due to the growing potential and comparative advantages of Polish industry. However, it must be noted that small companies lag behind medium and large companies in economic cooperation outside the EU.

In response to long-standing problems highlighted in the 2017 Strategy for Responsible Development[4], the Polish authorities implemented reforms to ease administrative procedures for business and trade and to increase R&D and innovation activities, as well as to achieve more even territorial development. These measures had the potential to have a positive impact on the internationalization of Polish SMEs.

Among these numerous measures that are the most relevant to this report are as follows:

[4] On February 14, 2017, the Polish government adopted the *Strategy for Responsible Development*, which envisages hundreds of measures aimed at raising the income of Poles and strengthening the country's social, economic, environmental and territorial cohesion.

The 2018 Business Constitution and "100 Changes for Enterprises"

The measures are aimed at reducing administrative burdens and simplifying bureaucratic procedures, especially for SMEs and foreign investors. Among the most important changes are:

- Simplified registration procedures and an exemption for the smallest companies (whose turnover does not exceed half of the minimum wage). In addition, the threshold for the full accounting obligation has been raised from 1.2 million euros in annual turnover to 2 million Euros. In addition, new companies benefit from a "right to error" for one year.
- Exemption from social security contributions in the first six months after starting a business. Entrepreneurs can benefit from reduced contributions under the so-called "small ZUS" for the next two years.
- Measures aimed at improving administrative confidence for businesses. In particular: Presumption of good faith and establishment of an ombudsman for SMEs; ministries are required to publish simple explanations of administrative regulations and tax laws; companies are now required to keep their financial statements for only five years, rather than indefinitely.
- A new law also makes it possible to prevent the extinction of a company's legal personality -especially family businesses and smaller companies- in the event of the death of the entrepreneur by establishing rules for the temporary continuation of business activities after the death of an entrepreneur.

The 2018 Reform of Special Economic Zones (SEZ)

The former network of SEZ (used mainly by larger industrial companies) was transformed into a nationwide investment tax credit to encourage use by SMEs. The amount of support depends mainly on the size of the company, the local unemployment rate and other qualitative criteria, such as the estimated potential of the sector and the expected social and environmental impact.

The 2019 Reduction in Corporate Income Tax Rate for SMEs

The authorities have reduced the corporate tax rate for SMEs to 9 percent (instead of 15 percent since 2016 and the standard rate of 19 percent). It applies to companies with an annual turnover of 1.2 million euros or less. In order to prevent tax optimization, this reduced rate does not apply to taxpayers starting their business if their business was created through the conversion of one company into another or through a business split.

In the meantime, direct measures toward SME internationalization already initiated were continued and expanded. These include several programs of the Polish Development Fund Group member companies: the Polish Agency for Enterprise Development (PARP - financial and advisory support), the PAIH (including sectoral economic marketing programs in markets mainly outside the EU), and Bank Gospodarstwa Krajowego (preferential financial instruments), but also initiatives of regional governments. In recent years, the network of foreign trade offices has been significantly expanded, which, according to some stakeholders, has closed gaps in Poland's foreign trade policy. In addition, measures to promote innovation and technical development in Polish companies are believed to improve the competitiveness of Polish SMEs on international markets.

Core Institution: Polish Agency for Enterprise Support (PARP)

The law establishing the PARP was passed in November 2000. The Agency was established in 2001 as part of the transformation of the Polish Foundation for the Promotion and Development of Small and Medium-Sized Enterprises (which operated from 1996 to 2000). In 2001, the Agency had 77 employees.

In 2002, as part of the implementation of the government program "Entrepreneurship First", PARP took over the tasks and responsibilities of the Agency for Technology and Technology and the Polish Agency for Regional Development. Thanks to the consolidation, an institution was created under the Ministry of Economy, Labor and Social Policy, responsible for the implementation of aid funds from the state budget and the EU for the development of Polish entrepreneurship.

PARP participates in the implementation of national and international projects financed by the Structural Funds, the state budget and the multi-annual programs of the European Commission. The Agency's mission is to act for the benefit of Poland's economic and social development.

The aim of PARP activities is to support entrepreneurship through the implementation of measures aimed at the use of innovative solutions by entrepreneurs, the development of human resources, expansion on international markets and regional development.

Peripheral Institutions

- **PAIH** supports both the expansion of Polish companies abroad and the inflow of FDI into Poland. It also aims to boost Polish exports. The Agency helps entrepreneurs cope with administrative and legal procedures related to specific projects and assists in developing legal solutions, finding a suitable location, reliable partners and suppliers.
- **The State Development Bank (BGK**), founded in 1924, is the only institution of its kind in Poland. Its mission is to support Poland's sustainable social and economic growth. It supports the development of Polish industry and its competitiveness, finances the largest infrastructure investment projects, provides Poles with better access to the housing market, and supports the activities of Polish companies both domestically and internationally.
- **The Export Credit Insurance Corporation (KUKE)** is the official Polish export credit agency. It is the only insurance company in Poland authorized to offer export insurance with the support of the State Treasury to help companies grow abroad. It currently covers 200 export markets - from Canada to Indonesia and from Mexico to the United Arab Emirates.

Major Support Programs

An assortment of recent support programs offered by these institutions are summarized below:

PARP

- During the 2014-2020 European Funds Financial Perspectives, PARP provided financial instruments to help SMEs promote product brands, support the internationalization of SMEs in Eastern Poland, and promote the internationalization of "*Key National Clusters*" (KKK). New programs to support industry were also introduced for 2020-22.

- In 2018, the Center for SME Development was established. This web portal provides information and consulting services for SMEs.

- To help small and young enterprises raise capital for their development, PARP introduced a new Micro and Small Enterprise Development Loan in 2019. The loan can be used for the purchase and supply of new fixed assets, the purchase of software, the integration of purchased software into existing machinery, or IT.

- PARP also finances investment in management skills through a human resources program that co-finances training with companies, as well as the Innovation Managers Academy and a number of programs designed to promote SME innovation.

PAIH

- A network of foreign trade offices responsible for providing free assistance to exporters and investors abroad.

- The Tech Bridges 2018 project, funded by the ERDF, which supports the foreign expansion of high-potential startups and SMEs.

- Networking events: in 2018, PAIH organized the first support forum for Polish companies abroad - PAIH Expo - for SMEs that are planning or have already expanded abroad. The event presented public services that support participation in foreign markets.

BGK

- To facilitate access to bank loans, BGK provides de minimis guarantees in cooperation with commercial banks. In cooperation with the EIB Group, BGK supports SMEs by providing portfolio guarantees to commercial banks, backed by the European Investment Fund guarantee.

- BGK offers trade finance instruments and direct loans for larger transactions for SMEs and larger companies. The PAE program, launched in 2017, also provides guarantees against the risk of default on letters of credit from commercial banks.

- For the implementation of the European Structural Investment Funds 2014-2020, BGK operates funds of funds for 15 regional and 2 national programs. These programs provide preferential loans, guarantees and equity instruments to SMEs through financial intermediaries to address investment and innovation needs and financing gaps.

KUKE

- It provides export credit insurance with government backing, especially for markets exposed to higher political risk. Its activities are focused on insuring receivables from the sale of goods and services with deferred payment, as well as providing bonds.

2.1.3.5 Conclusion of Review

This section combines the findings from the previous analysis with the excellent OECD study by Goujard and Guerin (2021), which focuses on the challenges and solutions for internationalization of Polish SMEs.

Challenges

- Tax procedures remain excessively time-consuming for SMEs. Smaller companies benefit from lower tax rates and exemptions. However, some regulations remain cumbersome and make it difficult for businesses to grow and access international markets.
- There are numerous regulatory and tax changes. Despite a dedicated framework for consultation, stakeholders do not consider the existing ex ante consultations effective, resulting in higher fixed and variable costs for SMEs.
- There appear to be significant skills gaps among SME managers that hinder internationalization and productivity.
- Participation of smaller companies in lifelong learning is weak.
- The diffusion of advanced digital technologies among Polish SMEs is weak and hinders their participation in e-commerce.
- Digitization remains inconsistent. The use of Big Data is limited, which may limit productivity gains and evidence-based policymaking, especially in the health sector.
- Inappropriately restrictive regulations may hinder the development of the most advanced digital technologies.
- Despite recent progress, the quality of Polish infrastructure is low in some regions, hindering business internationalization. Local governments are responsible for most of the infrastructure, but they lack the information and capacity to manage large projects.
- The criteria for allocating funds from the central government to local authorities for construction and modernization of the local road network are not transparent.
- Congestion in Polish cities is high by international principles and increases transportation and trade costs.

Lessons Learnt

- Trade policy has successfully improved the ability of SMEs to manage the fixed costs associated with exports and imports. Nevertheless, the efficiency of customs clearance procedures could still be improved. Expanding the use of pre-clearance and authorized economic operators could help reduce variable costs, increase the value of imports and exports, and support timely delivery to consumers.

- In a welcome move, the Polish authorities recently reformed the export promotion and investment framework to provide more assistance to Polish companies expanding into foreign markets. To provide direct on-the-ground support, PAIH maintains a network of foreign trade offices that focus primarily on distant markets with rapid growth potential for Polish exporters and investors. In addition to PAIH support, the Ministry of Economic Development promotes the internationalization of SMEs. In addition, the Ministry plans to launch a new online portal to facilitate and promote SME exports. This strategy is welcome, as there has been a lack of coherent export support services and evidence suggests that high-quality investment promotion services tend to increase FDI inflows.

Needs for Further Improvement

- Tax breaks and exemptions for smaller businesses should be reviewed and smoothing their impact should be considered as businesses grow. Administrative procedures should be streamlined without sacrificing regulations that are essential for good environmental, social, and economic outcomes.
- Stakeholders should be more involved in the design of regulations through early consultation processes.
- Systematic ex-ante and ex-post evaluations of regulations should be conducted.
- Financial support should be provided for the development of lifelong learning in the workplace and for the formation of training consortia by SMEs.
- Existing programs for SMEs should be expanded with a focus on training and showcase best practices based on thorough impact evaluations.
- Data hubs that provide businesses and public services access to large databases, particularly in the health sector should be provided, while ensuring digital security and privacy.
- The use of regulatory sandboxes should be promoted in sectors other than financial services.
- The role of ex-ante cost-benefit analysis in project selection should be strengthened, for example by establishing an independent evaluation body. Information on the performance of public assets should be systematically collected to enable transparent, fact-based prioritization of future infrastructure. The share of maintenance in infrastructure spending should be increased.
- Formal and transparent criteria should be established for allocating funds to local governments for their road networks.
- Local governments should be incentivized to expand public transportation, such as through co-funding agreements.
- Neighboring municipalities should be encouraged to work together through joint urban mobility plans.

2.1.4 South Korea

2.1.4.1 Background

South Korea is a country in East Asia that is located in the southern tip of the Korean Peninsula and shares a land border with North Korea. The country has a population of 52 million, about half of whom live in the capital region of Seoul, the fifth largest metropolitan area in the world. South Korea, which ranks 10th among the world's largest economies and 4th in Asia in 2022, is known for its extraordinary rise from one of the world's poorest countries to an advanced, high-income nation in just one generation. Per capita income rose from $100 in 1963 to more than $31,598 today in 2020 (IMF, October 2021).

1950 is a milestone for South Korea when a North Korean invasion began the Korean War, in which the United States-led UN intervened in support of the South, while China, with Soviet assistance, supported the North. After the war ended in 1953, South Korea entered into a military alliance with the United States, and its shattered economy began a recovery that saw the fastest increase in average per capita GDP in the world in the 1980s.

Despite the lack of natural resources, South Korea quickly emerged as one of the four Asian Tigers that industrialized based on international trade on a global scale. The country is currently one of the world's largest exporting nations and has one of the world's largest foreign exchange reserves.[5] Massive investments in education has transformed South Korea from mass illiteracy to an international economic power. One of the most important aspects of the country's economic success has its roots in this transformation because South Korea benefits from a highly skilled workforce and has one of the best educated countries in the world (OECD, 2016).

Recent economic developments in South Korea show that the country managed to keep its economy stable during the global financial crisis of 2008 and experienced positive economic growth at the height of the crisis. In 2020, however, the South Korean economy went through its worst growth in more than half a century, due to China's economic slowdown and uncertainties over the trade war between China and the United States, as well as the global impact of the COVID-19 pandemic.

In 2022, South Korea's biggest challenges are the economic, social and public health impacts of the COVID-19 pandemic (See Table 2.10). The country has completed framework measures for industrial innovation. These measures included the plans to reform manufacturing and services and improve the cutting-edge industries related to data and AI. Furthermore, there were new actions to promote the niche areas such as microchips, bio-health and futuristic automobiles. As a result, exports of the country have soared, led by semiconductors and automobiles. (OECD, 2021).

[5] https://www.korea.net/AboutKorea/Economy/The-Miracle-on-The-Hangang

Table 2.10. Key Indicators of the South Korean Economy

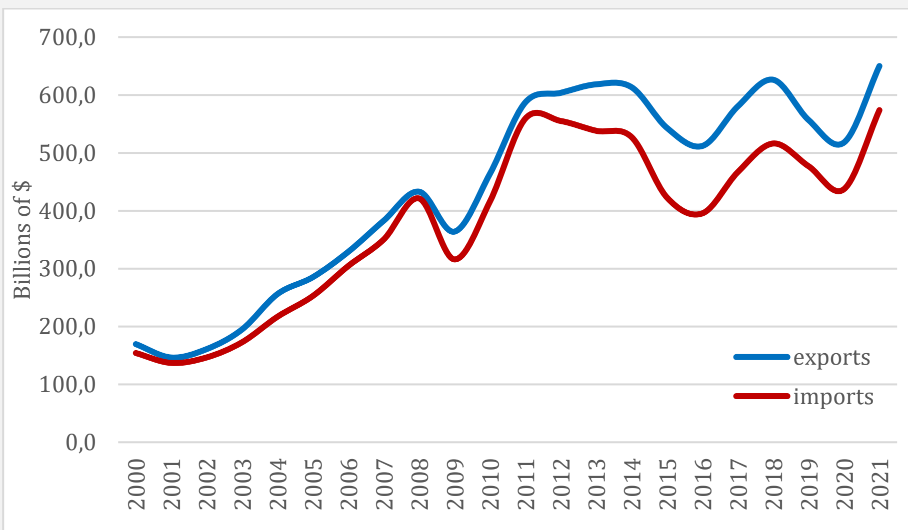
	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	1,466	1,500	1,624	1,725	1,651	1,638	--
GDP per capita in current prices (US$)	28,732	29,289	31,617	33,437	31,902	31,598	--
Growth rate of GDP (%)	2.81	2.95	3.16	2.91	2.24	-0.85	--
Inflation rate (%)	0.71	0.97	1.94	1.48	0.38	0.54	2.50
Unemployment rate (%)	3.55	3.65	3.65	3.82	3.75	3.93	3.53

Source: *World Development Indicators Database*

2.1.4.2 Foreign Trade

South Korea ranks seventh in goods exports and ninth in goods imports in the World (World Trade Organization, 2021). In 2020 trade constituted around 70 percent of its GDP (World Bank, 2022).

Figure 2.13. Exports and Imports of South Korea, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

Exports of South Korea displayed an increasing trend after the Asian crisis until the global financial crisis. Global trade slowdown affected the country and the exports were stagnated around 600 billion dollars since then (Figure 2.13). South Korea mainly exports electrical and electronic equipment (31 percent of total exports), machinery, nuclear reactors, boilers (13 percent), vehicles other than railway, tramway (11 percent) and plastics (6.2 percent). The major trade partners of South Korea are China (27 percent of total exports), United States (15 percent) and Vietnam (9.8 percent) as of 2021.

Similar to exports, imports of South Korea increased significantly until the global financial crisis and remained around 500 billion dollars since 2011 (Figure 2.13). The main imported products of South Korea are electrical and electronic equipment (20 percent), mineral fuels, oils, distillation products (19 percent), machinery, nuclear reactors, boilers (12 percent). The imports partners are China (24 percent), United States (13 percent) and Japan (10 percent).

Since 2000, South Korea has always displayed trade surplus. Starting from February 2012, the trade surplus has widened as shown in Figure 2.13.

2.1.4.3 SMEs and Internationalization

South Korea takes extra care in defining its MSMEs as shown in Tables 2.11 and 2.12. The three-year sales average of a firm's main business should satisfy the following criteria to be categorized as an SME: (i) A micro enterprise employs 9 or less people (in the service industry, 4 or less people). (ii) A small-sized enterprise has annual sales revenue less than 1 to 12 billion Korean Won (threshold differs from industry to industry, see Table 2.12). One should note that small-sized enterprises include MEs. (iii) A medium-sized enterprise has annual sales revenue less than 40 to 150 billion Korean Won (threshold differs from industry to industry, see Table 2.12).

Table 2.11. An Overview of the SME Definition of South Korea

Category	Employment Size	Turnover (KRW)
Micro Enterprises	Less than 9 persons	--
Small Enterprises	--	1-12 billion
Medium Enterprises	--	40-150 billion

Source: *Ministry of SMEs and Startups Web Page.*

SMEs play a crucial role in the Korean economy. According to Table 2.13, the total number of enterprises existing in Korea in 2019 was about 6,893,000, and the number of SMEs was about 6,888,000, accounting for 99.9 percent of all enterprises. In addition, the number of employees in all Korean enterprises is about 21.1 million, of which the total number of employees in SMEs is about 17.4 million. Thus, 82.7 percent of all workers are employed in SMEs.

The sectoral breakdown of SMEs by number of enterprises is very similar: 99.9 percent of enterprises in all sectors are SMEs. However, there are differences in the composition of employment, as shown in Table 2.14. Employment is concentrated in larger firms in manufacturing, utilities, ICT, and finance and insurance.

The contribution of Korean firms to employment and value added is shown side by side in Figure 2.14. While MEs account for 43.8 percent of employment, their share of total value added is only 16.2 percent. At the other end of the spectrum, large enterprises contribute to 38.8 percent of the country's value added, with an employment share of 13.9 percent.

Table 2.12. Details of the SME Definition of South Korea

Main Businesses		Code	SMEs (Average Sales)	Small Enterprise (Average Sales)
Manufacturing (6 business types)	Manufacturing of clothing, clothing accessories, and fur products	C14	KRW 150 billion or less	KRW 12 billion or less
	Manufacturing of leather, bags, and shoes	C15		
	Manufacturing of pulp, paper, and paper products	C17		KRW 12 billion or less
	Primary metal manufacturing	C24		KRW 8 billion or less
	Electrical equipment manufacturing	C28		
	Furniture manufacturing	C32		
Agriculture, forestry, and fisheries		A	KRW 100 billion or less	KRW 8 billion or less
Mining		B		
Manufacturing (12 business types)	Food manufacturing	C10		KRW 12 billion or less
	Tobacco manufacturing	C12		KRW 8 billion or less
	Textile product manufacturing (excluding clothing manufacturing)	C13		
	Timber and wood product manufacturing (excluding furniture manufacturing)	C16		
	Manufacturing of coke, briquettes, and refined petroleum products	C19		KRW 12 billion or less
	Chemicals and chemical product manufacturing (excluding medicine manufacturing)	C20		
	Rubber and plastic product manufacturing	C22		KRW 8 billion or less
	Metalwork product manufacturing (excluding machine and furniture manufacturing)	C25		KRW 12 billion or less
	Manufacturing of electronic parts, computers, video, audio, and communications equipment	C26		
	Manufacturing of other machines and equipment	C29		
	Automobile and trailer manufacturing	C30		
	Manufacturing of other transportation equipment	C31		KRW 8 billion or less
Supply of electricity, gas, steam, and air conditioning		D		KRW 12 billion or less
Waterworks		E36		
Construction		F		KRW 8 billion or less
Wholesale and retail businesses		G		KRW 5 billion or less
Manufacturing (6 business types)	Beverage manufacturing	C11	KRW 80 billion or less	KRW 12 billion or less
	Printing and recording media duplication	C18		KRW 8 billion or less
	Manufacturing of medical materials and pharmaceuticals	C21		KRW 12 billion or less
	Manufacturing of nonmetallic mineral products	C23		
	Manufacturing of medical, precision, optics and clocks	C27		KRW 8 billion or less
	Manufacturing of other products	C33		
Water, sewage, and waste disposal, raw material recycling (excluding waterworks)		E(excluding E36)		KRW 3 billion or less
Transportation and warehousing		H		KRW 8 billion or less
Information and communications		J		KRW 5 billion or less
Repair of industrial machinery and equipment		C34	KRW 60 billion or less	KRW 1 billion or less
Professional, scientific, and technical services		M		KRW 3 billion or less
Business facility management, business support, and rental services (excluding rental businesses)		N(excluding N76)		KRW 3 billion or less
Health and social welfare services		Q		KRW 1 billion or less
Arts, sports and leisure services		R		KRW 3 billion or less
Repair and other personal services		S		KRW 1 billion or less
Accommodations and restaurants		I	KRW 40 billion or less	KRW 1 billion or less
Finance and insurance		K		KRW 8 billion or less
Real estate businesses		L		KRW 3 billion or less
Leasing businesses		N76		KRW 3 billion or less
Education services		P		KRW 1 billion or less

Source: *Ministry of SMEs and Startups Web Page.*

Table 2.13. Number of South Korean SMEs and Employees by Year

	Total (A)		SMEs (B)		Ratio (B/A)	
	No. of Firms	No. of Employees	No. of Firms	No. of Employees	No. of Firms	No. of Employees
2000	2,729,957	10,768,597	2,707,805	8,680,694	99.2	80.6
2001	2,658,860	10,876,418	2,649,691	9,176,237	99.7	84.4
2002	2,861,830	11,737,640	2,856,913	10,154,095	99.8	86.5
2003	2,939,661	11,870,358	2,934,897	10,308,574	99.8	86.8
2004	2,927,436	11,824,074	2,922,533	10,210,629	99.8	86.4
2005	2,867,749	11,902,400	2,863,583	10,449,182	99.9	87.8
2006	2,940,345	12,234,160	2,936,114	10,677,789	99.9	87.3
2007	2,976,646	12,612,692	2,974,185	11,149,134	99.9	88.4
2008	3,046,958	13,070,424	3,044,169	11,467,713	99.9	87.7
2009	3,069,400	13,398,497	3,066,484	11,751,022	99.9	87.7
2010	3,125,457	14,135,234	3,122,332	12,262,535	99.9	86.8
2011	3,234,687	14,534,230	3,231,634	12,626,746	99.9	86.9
2012	3,354,320	14,891,162	3,351,404	13,059,372	99.9	87.7
2013	3,418,993	15,344,860	3,415,863	13,421,594	99.9	87.5
2014	3,545,473	15,962,745	3,542,350	14,027,636	99.9	87.9
2015	5,893,802	19,259,827	5,889,611	16,032,404	99.9	83.2
2016	6,085,434	19,635,071	6,080,914	16,361,595	99.9	83.3
2017	6,301,013	20,094,913	6,296,210	16,689,525	99.9	83.1
2018	6,643,756	20,591,641	6,638,694	17,103,938	99.9	83.1
2019	6,893,706	21,076,582	6,888,435	17,439,595	99.9	82.7

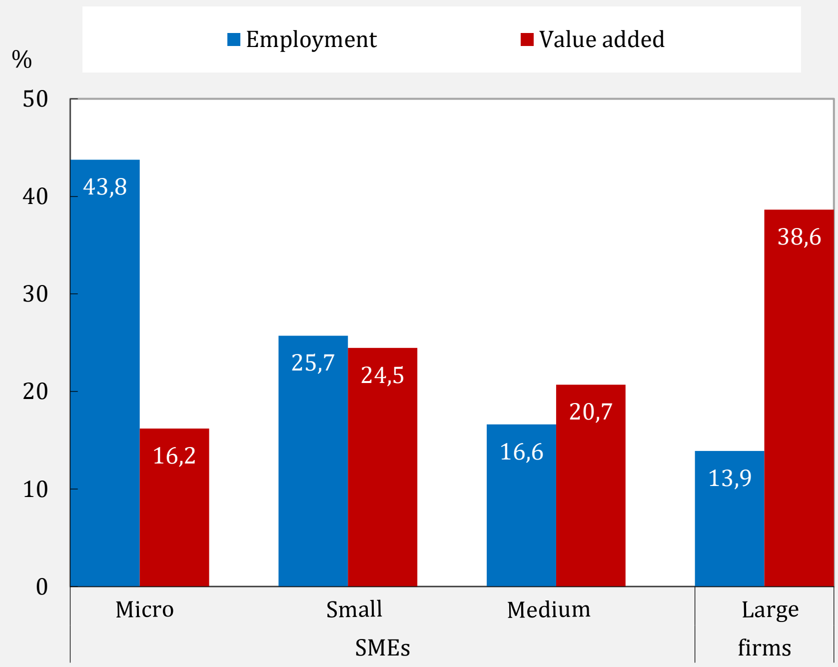
Source: *Ministry of SMEs and Startups Web Page.*

Table 2.14. Number of South Korean SMEs and Employees by Sector

		Total (A)		SMEs (B)		Ratio (B/A)	
		No. of Firms	No. of Employees	No. of Firms	No. of Employees	No. of Firms	No. of Employees
All	Industries	6,893,706	21,076,582	6,888,435	17,439,595	99.9	82.7
A	Agriculture, Forestry & Fishery	88,476	147,866	88,457	146,205	100	98.9
B	Mining	2,656	12,194	2,654	11,483	99.9	94.2
C	Manufacturing	579,002	4,759,709	577,345	3,394,029	99.7	71.3
D	Electricity, Gas, Steam & Water	94,307	137,224	94,195	99,673	99.9	72.6
E	Sewer/Waste Treatment, etc.	11,344	93,737	11,313	85,237	99.7	90.9
F	Construction	484,611	1,990,943	484,238	1,750,219	99.9	87.9
G	Wholesale & Retail	1,661,831	3,674,757	1,661,006	3,286,936	100	89.4
H	Transportation & Warehouse	614,188	1,218,409	613,985	1,060,969	100	87.1
I	Accommodation & Restaurants	815,269	1,995,255	815,162	1,830,894	100	91.8
J	ICT	125,741	731,167	125,427	504,916	99.8	69.1
K	Finance & Insurance	54,135	663,524	53,711	142,164	99.2	21.4
L	Real Estate	1,167,248	1,471,192	1,166,553	1,409,412	99.2	95.8
M	Science & Technical Service	222,342	889,207	222,144	794,824	99.9	89.4
N	Business Services	150,520	1,396,581	150,315	1,078,748	99.9	77.2
P	Education Service	223,489	368,358	223,458	353,241	100	95.9
Q	Health & Social Welfare	77,711	650,656	77,704	646,595	100	99.4
R	Art, Sports & Recreation	145,295	268,142	145,239	249,110	100	92.9
S	Repair & Other Service	375,541	607,661	375,529	594,940	100	97.9

Source: *Ministry of SMEs and Startups Web Page.*

Figure 2.14. Contribution of South Korean SMEs to the Economy



Source: *OECD SME and Entrepreneurship Outlook, 2021.*

Exports of SMEs

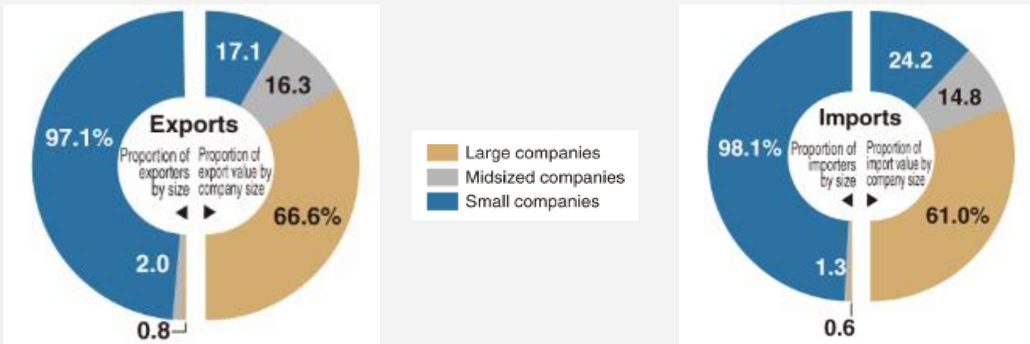
Very small number of large companies in South Korea continue to dominate the country's exports and imports, as shown in Figure 2.15. These results are for 2018, the year with the most recent data available.

According to the export data, 805 large firms accounted for 66.6 percent of exports in 2018 (only 0.8 percent of all exporting firms). Just over 2,000 medium-sized enterprises, accounting for 2 percent of all exporting firms, accounted for 16.3 percent of Korea's exports. Finally, although small enterprises make up the majority of firms (97.2 percent), their export share was only 17.1 percent in 2018.

The value of imports from 1,092 large enterprises increased 0.2 percentage points to $323 billion, accounting for 61 percent of all imports by value in 2018. They accounted for only 0.6 percent of the total number of importers.

Indeed, these results are consistent with the literature on heterogeneous firms that began with the seminal work of Melitz (2003) and Bernard, Eaton, Jensen, and Kortum (2003). While small firms tend to remain domestic, large firms become exporters and multinationals because of their productivity advantage.

Figure 2.15. Exports and Imports of South Korean Firms by Size, 2018



Source: *Korea Customs Service and Statistics Korea.*

2.1.4.4 SME Internationalization Incentives and Initiatives

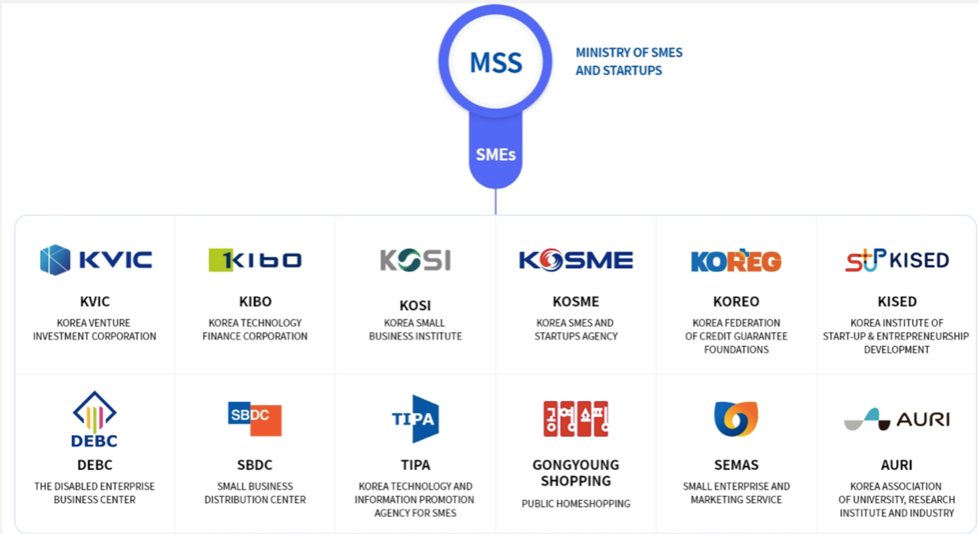
Institutional Framework

Although Korea has implemented various export promotion policies over the past 60 years, the focus of these policies has been to support large export enterprises. However, with Korea's accession to the WTO and the OECD in 1996, and especially after the Asian financial crisis in late 1997, the Korean government began to recognize the importance of government policies to strengthen the competitiveness of SMEs in the global market (Lee et al., 2018).

In the 2000s, the focus of SME support policies shifted from direct support to indirect support measures. While direct support generally refers to financial support, indirect support generally refers to the provision of training, education and information, support for international marketing, etc. Since then, the Korean economy has been globalized through the conclusion of FTAs with the US, EU and China, and the Korean government began to focus on internationalization policies for SMEs. However, the focus of SME policy remains on strengthening export competitiveness (Lee et al., 2018).

Against this background, the central and peripheral institutions for SMEs in South Korea are summarized in Figure 2.16, and those most relevant to internationalization are discussed in this section.

Figure 2.16. The Core and Peripheral Institutions on SMEs in South Korea



Source: *Ministry of SMEs and Startups Web Page.*

Core Institution: Ministry of SMEs and Startups

Policy Goal: The Ministry of SMEs and Startups (MSS) is a government organization whose goal is to strengthen the competitiveness and support the innovation of SMEs and MEs.

- Promoting business growth: It is well known that business growth is directly linked to the growth of a national economy. Therefore, MSS implements various measures to promote the growth of enterprises at all stages of development - from start-ups to SMEs, from SMEs to global companies or hidden champions.
- Promotion of start-ups: Technology and knowledge-based startups can bring innovation and energy to the entire business ecosystem. To this end, MSS strives to foster new ideas that turn into new businesses. In addition, MSS creates a smooth cycle of business financing that facilitates investment, recovery, and reinvestment.
- Microenterprise Support: To strengthen the competitiveness of micro-enterprises, which are an important foundation of the domestic economy, MSS adopts policies that enable successful start-up, adoption of cooperative models, healthy growth and successful transition.

Peripheral Institutions

- **The Korea SMEs and Startups Agency (KOSME)** is a non-profit, government-funded organization established to implement government policies and programs for the healthy growth and development of Korean SMEs. KOSME implements financial and non-financial programs for SMEs. KOSME provides funding for SMEs to expand their businesses, develop new products, and restructure their corporate structures. Through advisory programs, including consulting, training, export marketing, and global cooperation programs, KOSME helps SMEs improve their global competitiveness.

- **The Korea Trade-Investment Promotion Agency (KOTRA)** is a government-funded agency that effectively serves as a local office for South Korean SMEs abroad. With 127 overseas offices in 84 countries, KOTRA conducts market research, meets with local buyers on behalf of businesses, and facilitates other trade-related matters requested by businesses.
- **The Korea Institute of Start-up & Entrepreneurship Development (KISED)** was established to contribute to the national economy, support start-up development, and promote one-man start-ups. KISED is a specialized organization for accelerator registration and management. Its mission is to provide training for startups, promote future entrepreneurs, assist with commercialization, statistics, research, policy development, funding, human resources, globalization, and startups.
- **Korea Venture Investment Corporation (KVIC)** is a venture capital specialist and manages funds of funds. KVIC supports the growth of SMEs and venture firms by providing a stable source of capital to the venture capital market. In addition, KVIC is committed to promoting the globalization of the venture ecosystem and helping startups go international. KVIC works to create a positive cycle of startup growth-exit-re-investment for the venture ecosystem by organizing funds based on market demand, promoting the participation of institutional investors and pension funds in venture investment funds, expanding investment startups, and promoting the M&A market.
- Since its establishment in 1995, the **Small Business Distribution Center (SBDC)** has assisted SMEs in developing markets and distribution channels through department store projects, home shopping projects, marketing support, and online support.

Major Support Programs

Program offered by Ministry of Trade, Industry and Energy (MOTIE) and MSS: The Export Voucher Program

The export voucher program in 2017 was initiated by the management of MOTIE and MSS supervised by KOTRA and the Small and medium Business Corporation (SBC), and operated by KOTRA, SBC, regional offices of the MSS and the Korea Institute for Advancement of Technology (KIAT) to assist SMEs in all stages of exporting. The support packages provided in this program cover brand/design development, overseas certifications, training on international trade, overseas market surveys, visits to expositions, and establishment of local corporations, which are available for all participants and chosen by the participants themselves fitting their needs. The program operates with vouchers issued for companies to access to KOTRA's Export Assistance Projects. In other words, vouchers are means of payment for public administration services.

Program offered by MSS: Expanded Foundation for Overseas Expansion

MSS provides online/offline programs to help capable SMEs expand into overseas markets. Offline supports include exhibitions and promotional events tied up with global K-WAVE events organized by large companies, as well as provision of office spaces and accounting/legal consultation for SMEs seeking to open branches or set up business overseas. As for online support, it helps SMEs sell their products through global online marketplaces such as Rakuten, Amazon, and Taobao; it also promotes SME products on product-dedicated pages that target overseas buyers and provides marketing training.

These programs are aimed at securing new markets and buyers for SMEs, thereby building a secure footing for their growth into sound middle-standing companies and "hidden champions."

Programs offered by KOSMES

There are many programs operated by KOSMES to help internationalization of SMEs such as:

Export Marketing Program: Trade delegations are sent to potential trade partner countries to meet with foreign buyers and they are invited to the country to meet with Korean SMEs. Moreover, assistance provided to SMEs in order to participate in major foreign exhibitions.

Gobizkorea (kr.gobizkorea.com): It is an online pavilion for SMEs to assist SMEs searching for export markets.

Export Capability Building Program for High-Growth SMEs: The program aims to enhance export capabilities by supporting export marketing programs of SMEs with high sales volume or high employment growth rate.

Overseas Private Network: The program provides private consulting networks regarding overseas market entry, consulting and marketing services in major foreign countries. Currently there are 35 overseas consulting networks in 49 countries for supporting exports as well as technical cooperation.

Business Incubator: The objective of this program is to assist SMEs enlarge their operations int overseas markets on their own by providing SMEs with office space and services (such as marketing, law, tax and accounting consulting) in major trade partners. Currently there are 22 business incubators operating in 14 nations.

Overseas Industrial Collaboration: The program aims firstly to seek for new collaboration opportunities as well as innovative business ideas by international investment and technology in cooperation with international/government organizations. The second objective is to implement development initiatives utilizing the KOSME's SME development knowledge and experience. Finally, under APEC SME Innovation Center (SMEIC), the program aims to accelerate innovation of SMEs by encouraging information exchange and industrial or technology cooperation in the region.

2.1.4.5 Conclusion of Review

Challenges

- In Korea, there are large and growing differences in labor productivity among different sizes of firms. For example, the labor productivity of SMEs is only about half that of medium-sized firms, which in turn account for slightly more than half of large firms. Large productivity differences exacerbate income inequality and are an obstacle to inclusive growth. Moreover, low productivity in SMEs and mid-sized firms hampers large firms, whose international competitiveness depends in part on the efficiency of their suppliers. (Jones and Lee, 2018).
- Low productivity and low wage levels in SMEs discourage young people in Korea from taking jobs in smaller firms, thus perpetuating low productivity. In addition, SMEs in Korea are constrained by a shortage of skilled labor and their ability to train their employees is low compared to large companies.
- Digital platforms provide new opportunities for small businesses to enter foreign markets. However, according to a government survey (Chang and Lee, 2017), only 12.4 percent of exporting SMEs in Korea used e-commerce, as companies rely more on face-to-face contact. For companies with more than 31 years of export experience, the percentage of e-commerce use is only 4 percent.
- Many of the most important trade barriers are in the services sector. Korea's services trade restriction index is below the OECD average in 14 of 22 sectors, but still above in some sectors that play key roles in GVCs, such as telecommunications, legal and accounting services, and rail freight.
- Increasing direct service exports by SMEs would also be beneficial, although this would be challenging as Korea's service sector is relatively underdeveloped. Export-oriented development has diverted capital, talent and other resources away from the service sector and toward manufacturing.

Lessons Learnt

- Lee (2006) reports that more than 60 percent of SMEs that had not yet gone international at the turn of the millennium responded that they did not feel the need to internationalize their business or products; more than 70 percent of this 60 percent responded that this was because they were domestic, consumer-oriented companies. One of the most important lessons to be learned from the Korean example is that the country has succeeded in fostering the will and attitude to export among SMEs through various programs. For example, KOTRA operates, among others, the KOTRA Academy, which provides information, education and training related to international business. The individual curriculums of these academies vary from organization to organization, but their programs range from *training for SMEs not yet engaged in international business* to *specialized training courses for those already engaged in international business*.

- Korea has successfully established a government-level e-commerce platform that makes it easy for global buyers to find products, rather than local SMEs having to find global buyers for their products. Doing business internationally is an expensive task for most companies, regardless of size, not just SMEs. Even for an organization like KOTRA, gathering and analyzing information about the global market, local distributors, foreign customs, different laws for local businesses, etc. is no easy task. Meanwhile, marketing based on ICT is the best way to overcome one of the biggest obstacles to SME internationalization, which is geographical distance (Lee et al., 2018).
- In Korea, there is a very detailed definition of what an SME is, as they differ fundamentally from industry to industry in their scarcity of human and financial resources. It is not easy for SMEs to spare their time to participate in various programs offered by SME support organizations, even if SMEs find these programs helpful and want to participate. Participating in an SME support program can cost time and money, which is not an easy decision for SMEs. Korea overcomes this problem by offering on-site services. For example, the SBDC-run SME Export Academy provides on-site training services in the region when 10 to 15 candidates come together and submit their application for the program as a group (Lee et al., 2018).
- Another lesson from the recent Korean experience is the government's active promotion of local SMEs to create a *common brand* and *common production system* and help them list their products on the global e-commerce platform. This is because it is almost impossible for products produced by local SMEs to be recognized by global buyers. Moreover, it is usually impossible for local SMEs to achieve economies of scale to fulfill the huge number of orders, even if they are recognized by global buyers (Lee et al., 2018).

Needs for Further Improvement

- Active use of digital platforms can improve the productivity and price competitiveness of SMEs compared to large enterprises. It can also improve access to alternative financial instruments and foster the emergence of innovative startups by leveraging the Internet to reduce fixed costs and outsource key functions. Even MEs can export as their main activity and benefit from digital tools. Two-thirds of SMEs that export report that more than half of their international sales depend on online tools (Jones and Lee, 2018).
- To break the vicious cycle of young people not wanting to work for SMEs, we need to help them enter the labor market earlier through increased practical vocational training that starts at the secondary level. In addition to reducing labor shortages, we must ensure that education and training provide workers with sufficient skills, including digital skills, to achieve the government's goal of making SMEs drivers of innovation and digitization.
- In particular, promoting lifelong learning will be critical in this regard, given the wide gap in computer skills between generations. Indeed, the ability of young people (16-24) to solve problems using computers is one of the highest in the OECD, while the ability of

older workers (55-64) is among the lowest. However, the proportion of older workers receiving vocational education and training is low in Korea (Jones and Lee, 2018).

- Policies that educate SMEs on how to use e-commerce for exports, help them train the necessary workforce, and reduce the cost of implementing such systems would help increase SME exports and encourage "global startups."
- Lowering Korea's trade and investment barriers would encourage SME participation in high value-added GVCs. Given SMEs' concentration in the service sector, increased trade in services would help boost their productivity. In addition, improving institutional transparency and regulatory reform, as well as harmonizing principles and technical regulations, would reduce regulatory costs.

2.1.5 Vietnam

2.1.5.1 Background

Vietnam is a country in Southeast Asia, located in one of the earliest agricultural centers. It borders China to the north, Laos and Cambodia to the west, and shares maritime borders with the Philippines, Malaysia, Thailand and Indonesia. With an area of 311,699 square kilometers and a population of over 96 million people, Vietnam is the fifteenth most populous country in the world.

Vietnam experienced a prolonged war in the 20th century. A major turning point in Vietnamese history was the founding of the Communist Party of Vietnam in 1930, and a 30-year struggle was required of the newly formed Vietnam. The war of resistance against the French colonialists ended in 1954 with the victory at Dien Bien Phu and the Geneva Agreement. The Doi Moi (Reform) Program of 1986, with its emphasis on economic reform, was another important milestone in Vietnam.

Export promotion and FDI have made Vietnam's economy one of the fastest growing in the world over the past 20 years. GDP per capita increased 3.6 times between 2002 and 2021, reaching nearly $3,700. This increased economic pace is due to the shift of labor from agriculture to manufacturing and services, private investment, a robust tourism sector, higher wages, and increasing urbanization. Currently, the country's economy relies on large state-owned industries such as food, textiles, plastics, furniture and paper. According to 2020 figures, industry accounts for 33.7 percent of GDP and 27 percent of employment. Vietnam has recently invested heavily in high value-added industries such as electronics, automobiles, and computer technologies. The service sector is also crucial. It accounts for 41.6 percent of GDP and 35 percent of employment in 2020, with tourism and telecommunications being the most important service sectors. The percentage of the population working in agriculture is high (38 percent), with a contribution to GDP of 14.8 percent (World Bank, 2022).

Vietnam's economy has been resilient in the face of numerous crises, most recently COVID-19. It is among the few countries with positive GDP growth in 2020. Due to the occurrence of the delta variant, GDP growth fell to 2.6 percent in 2021 but is expected to recover to 5.5 percent in 2022 (Table 2.15). The impact of COVID-19 on labor markets was very limited. The unemployment rate reached only 2.4 percent in 2020. Inflation increased from 2.8 percent in 2019 to 3. 2 percent in 2020 and was 1.8 percent in 2021. Vietnam aims to achieve high-income country status by 2045, which requires an average annual growth rate of 5 percent over the next 23 years. Vietnam has also committed to becoming carbon neutral by 2050 and is working toward more sustainable and equitable development.

As living principles have risen, health conditions in Vietnam have also improved. The infant mortality rate decreased from 32.6 per 1,000 live births in 1993 to 16.7 per 1,000 in 2020, and life expectancy increased from 70.5 to 75.4 years between 1990 and 2019, the highest in the region for countries with similar income levels. Vietnam's universal health coverage index is 73-higher than regional and global averages-with 87 percent of the population insured.

Table 2.15. Key Indicators of the Vietnamese Economy

	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	193.24	205.28	223.78	245.21	261.92	271.16	--
GDP per capita in current prices (US$)	2085.1	2192.2	2365.5	2566.5	2715.3	2785.7	--
Growth rate of GDP (%)	6.7	6.2	6.8	7. 1	7	2.9	2.6
Inflation rate (%)	0.6	2.7	3.5	3.5	2. 8	3.2	1.8
Unemployment rate (%)	1.85	1.85	1.87	1. 16	2.04	2.4	--

Source: *World Development Indicators Database*

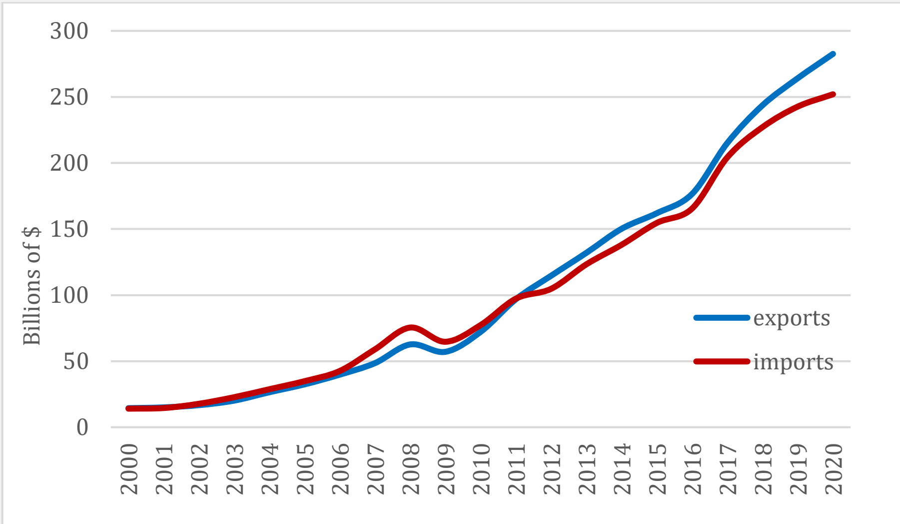
2.1.5.2 Foreign Trade

According to 2020 figures, Vietnam ranks 16th in merchandise exports and 18th in merchandise imports out of 226 countries (World Trade Organization, 2021). In 2020, with a decrease of 1 percent compared to 2019, trade accounted for about 209 percent of Vietnam's GDP, the sixth highest in the world (World Bank, 2022).

Vietnam's exports experienced near-exponential growth after joining the WTO on January 11, 2007, reaching nearly $300 billion in 2020 (Figure 2.17). One of the driving forces for this significant growth is the FTAs signed by the Vietnamese government. Vietnam has signed the following FTAs: Regional Comprehensive Economic Partnership (RCEP), UK-Vietnam Free Trade Agreement (UKVFTA), EU-Vietnam Free Trade Agreement (EVFTA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ASEAN Free Trade Area (AFTA), ASEAN-Australia-New Zealand Free Trade Area, ASEAN-China Free Trade Area, ASEAN-Hong Kong Free Trade Area, ASEAN-India Free Trade Area, ASEAN-Japan Comprehensive Economic Partnership Agreement, ASEAN-Republic of Korea Free Trade Area, Vietnam-Chile Free Trade Area (VCFTA), Global System of Trade Preferences among Developing Countries (GSTP), and Vietnam-Korea Free Trade Area (VKFTA).

Due to its advantage in low-cost manufacturing, most of Vietnam's exports consist of manufacturing goods, such as transmission equipment for radio and television, including receiving equipment ($42 billion), telephone sets, including telephones for cellular networks or other wireless networks ($21.4 billion), electronic integrated circuits ($19.4 billion), footwear; with outsoles made of rubber, plastic, leather or reconstituted leather ($8.9 billion), and machinery; parts and accessories (other than covers, carrying cases, and the like) ($7.68 billion) as of 2020. The largest export markets in 2020 were the U.S. (27 percent), China (17.3 percent), Japan (6.84 percent), and Korea (6.79 percent).

Figure 2.17. Exports and Imports of Vietnam, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

Although imports followed a similar pattern when Vietnam joined the WTO, exports outpaced import growth and Vietnam recorded a trade surplus (Figure 2.17). The increase in imports was mainly due to the need for intermediate inputs for industry and the increase in demand for consumer goods as Vietnam's per capita income increased. Vietnam's main imports are: Electronic integrated circuits ($34.2 billion), Telephone sets, including telephones for cellular networks or for other wireless networks ($16.5 billion), diodes, transistors, and similar semiconductor devices; including photovoltaic cells, assembled or not ($6.04 billion), fabrics; knitted or crocheted, ($4.84 billion), and transmission equipment; parts suitable for use exclusively or principally with the equipment... ($4.1 billion) as of 2020, with China (32 percent), Korea (17.9 percent), Japan (7.75 percent), and the U.S. (5.26 percent) as the top import partners in 2020.

2.1.5.3 SMEs and Internationalization

Micro, small, and medium-sized enterprises are defined in Vietnam based on two criteria, the number of employees and the total revenue or total capital of the enterprise, according to the Law on Support for SMEs of June 12, 2017. This definition differs by sector in terms of thresholds (Table 2.16).

Table 2.16. An Overview of the SME Definition of Vietnam

	Agriculture, Forestry and Fishing, Industry and Construction		Trade and Services	
Category	Employment Size	Total Revenue - Total Capital (VND)	Employment Size	Total Revenue - Total Capital (VND)
Micro Enterprises	Employees 1-10	Revenue< VND 3 billion or Capital< VND 3 billion	Employees 1-10	Revenue< VND 10 billion or Capital< VND 3 billion
Small Enterprises	Employees 11-100	Revenue< VND 50 billion or Capital< VND 20 billion	Employees 11-50	Revenue< VND 100 billion or Capital < VND 50 billion
Medium Enterprises	Employees 101-200	Revenue< VND 300 billion or Capital< VND 100 billion	Employees 51-100	Revenue< VND 300 billion or Capital < VND 100 billion

Source: *Decree 39/2018/ND-CP on Detailed Guidance on Implementation of the SME Support Law*

According to Table 2.17, SMEs account for 97.4 percent of the total number of enterprises in Vietnam in 2019 (651,138 out of 668,505). On the other hand, the total number of employees in the Vietnamese economy is 15,151,989, of which 5,681,615 work in SMEs. Thus, the employment contribution of SMEs is 37.5 percent.

Table 2.17. Number and Share of Vietnamese SMEs by Year

	2016	2017	2018	2019
Number of enterprises, total	505,059	560,413	610,637	668,505
Number of MSMEs	495,010	544,212	593,865	651,138
Number of large enterprises	10,049	16,201	16,772	17,367
MSME to total (%)	98.0	97.1	97.2	97.4

Source: *2021 ADB Asia Small and Medium-Sized Enterprise Monitor*

The sectoral distribution of SMEs is shown in table 2.18. Although their share decreases over time, SMEs are mainly active in the construction sector. The wholesale and retail trade sector follows the construction sector with a share of 22.8 percent in 2019. The manufacturing sector hosts only 7.9 percent of SMEs.

Table 2.18. Share of Vietnamese SMEs by Sector

Sectors	2016	2017	2018	2019
Agriculture, forestry, and fisheries	14.5	14.2	15.1	15.7
Manufacturing	8.3	8.3	8.0	7.9
Transportation and communication	13.0	13.2	13.3	13.7
Construction	40.0	39.8	39.0	37.5
Wholesale and retail trade	22.2	22.4	22.3	22.8
Other services	1.1	1.1	1.2	1.2
Others	14.5	14.2	15.1	15.7

Source: *2021 ADB Asia Small and Medium-Sized Enterprise Monitor*

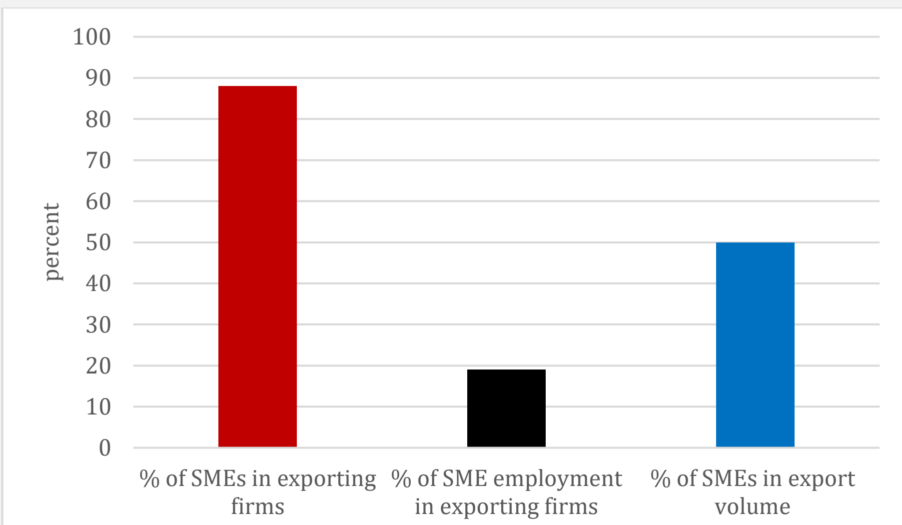
SMEs are an essential part of the Vietnamese economy, including their contribution to GDP. SMEs account for 40 percent of GDP. Moreover, their contribution to industrial production value is 33 percent.

Exports of SMEs

Vietnam's main export sectors are industry and trade, which account for 40 percent and 51 percent of exporting enterprises, respectively. However, industry dominates export-oriented employment (86 percent) and export volume (68 percent). Industry has a small share of exporting enterprises (20 percent), but since they are larger compared to non-exporters, their employment share is 76 percent. The GSO Enterprise Census (2015 edition) also provides information on the size of exporting enterprises. According to the census, the average employment is 162 and the median is 16 in exporting firms, indicating that employment is concentrated in a few large firms.

Figure 2.18 shows the share of Vietnamese SMEs for various export indicators. SMEs account for a large share of the total number of exporting enterprises (88 percent). On the other hand, they account for only 19 percent of employment in exporting enterprises. As for the volume of exports, SME exports account for 50 percent of the export volume. This share is within the OECD range. It is worth noting here that 70 percent of Vietnam's SME exports come from foreign-owned SMEs that have established themselves in Vietnam to be closer to MNCs, which act as their main customers.

Figure 2.18. Share of SMEs in Vietnamese Exports



Source: *GSO Enterprise Census, 2015*

2.1.5.4 SME Internationalization Incentives and Initiatives

Institutional Framework

The rapid process of industrialization in the last 20 years has made Vietnam a global manufacturing center. However, the contribution of SMEs to both GDP and exports is limited. As mentioned earlier, 70 percent of Vietnam's SME exports come from foreign-owned enterprises.

The first measures to promote SMEs and entrepreneurship in Vietnam date back to the early 2000s. A 2001 national law introduced the legal definition of an SME and established the SME Development Agency, which has since become the AED under the MPI. With the broad and deep integration of the Vietnamese economy into the global economy through FTAs, the Vietnamese government introduced new measures to support SMEs. One of the most recent and comprehensive attempts, the Law on Support for SMEs, introduced in 2018, touches on various policy areas such as access to finance, taxation, innovation, and value chain (OECD, 2021). These policies were drafted and adopted by the MPI, which has primary responsibility for SME entrepreneurship policy and internationalization in Vietnam.

Although these policies are expanding, government support for export promotion is still weak. Vietnamese SMEs face significant obstacles in exporting. They have mainly carried out internationalization activities, such as obtaining market information on foreign markets, by themselves. In addition, their access to finance for the investment required for internationalization is limited (Nguyen, 2020).

Core Institution: MPI

The MPI is a government agency responsible for government administration of planning, development investment, and statistics, including providing general advice on strategies and master plans.

In addition to developing and implementing plans for SME promotion, training officials and staff in SME policy, and reporting to the government and prime minister on SME policy implementation, it is primarily responsible for national SME policy. It is also responsible for managing the SME Development Fund (SMEDF).

Peripheral Institutions

- **AED:** it is the central government organization responsible for coordinating SME policy under the MPI.
- **SME Support Centers (formerly Technical Assistance Centers, TACs):** The three TACs - Ha Noi (north), Ho Chi Minh City (south) and Da Nang (center), all under the AED - are tasked with organizing and implementing SME support policies and programs in their respective regions, including management training and business incubators.

- **Ministry of Finance:** It sets preferential tax conditions and incentives for SMEs and innovative startups, develops rules for the SME Guarantee Fund, and monitors the financial performance of the Vietnam Development Bank (VDB). It also provides instructions on tax administration procedures and accounting for SMEs (VDB).
- **Ministry of Industry and Trade (MOIT):** It implements the 2016-2025 Supplier Industry Development Program, trains SMEs on how to join business clusters and value chains, promotes seminars to help SMEs participate in the distribution system, and coordinates with medium and large retailers currently operating in the domestic market.
- **VIETRADE:** VIETRADE is an agency of the MOIT responsible for export promotion in the country. Through this agency, the Ministry operates centers for industrial and trade promotion in each of the 63 provinces.
- **Ministry of Science and Technology (MOST):** It is responsible for funding the National Ecosystem for Innovative Startups until 2025. The National Technology Innovation Fund (NATIF) provides grants and preferential loans for R&D, innovation and technology transfer, as well as information on setting up incubators. It also helps SMEs build their technological capacity and supports links between them and research institutes and universities.
- **National Agency for the Development of Technology Entrepreneurship and Commercialization (NATEC):** The agency advises and assists the Minister on the growth of the technology market and the establishment and promotion of science and technology enterprises at MOST. It is responsible for implementing the National Innovative Startup Ecosystem and developing a national startup portal to connect the ecosystem's policy-making bodies, ministries, municipalities, startup incubators, and investors.
- **Ministry of Information and Communications (MIC):** It gives SMEs an introduction to e-commerce and facilitates their use of online platforms.
- **Ministry of Education and Training (MOET):** It implements the plan "Supporting Student Entrepreneurship 2017-2020 with a Vision Toward 2025," which aims to provide entrepreneurial knowledge and skills to students in educational and training institutions.
- **Ministry of Labor, Invalids and Social Affairs (MOLISA):** the technical and vocational education and training (TVET) system is under its control. To integrate entrepreneurship education into vocational schools and academies, it implements a strategic TVET strategy that includes training programs for teachers, entrepreneurship training for students, and the creation of training materials and knowledge resources.
- **State Bank of Vietnam (SBV):** coordinates the implementation of government initiatives to promote lending to SMEs.
- **VDB:** established in 2006, it executes the government's policies on export finance and investment.

- **Central Institute for Economic Management (CIEM):** it serves as a think tank of MPI. It conducts research on enterprise and SME development and drafts regulations such as the Enterprise Law and the SME Support Law.

Major Support Programs

SMEDF

The SMEDF was established pursuant to Prime Minister's Decision No. 601/QD-TTg of April 17, 2013 and began operations in April 2016. The initial capitalization was VND2 trillion from the state budget. The MPI is responsible for implementing the program.

SMEs are supported by SMEDF through lending, financing, and capacity building of enterprises through activities such as consulting and training. Another task of the SMEDF Fund is to attract external funding in addition to that provided by the state.

The Credit Guarantee Fund

One of the most popular government initiatives to improve SMEs' access to capital is the loan guarantee. The creation of a network of CGFs in Vietnam was legislated by Decree No. 193/2001/QD-TTg to provide SMEs with additional collateral to meet the security criteria for bank financing. CGFs are managed through two channels: the VDB, which receives funds from the state budget, and Local Guarantee Funds (LGFs), which are managed by local and municipal governments and receive funds from local budgets. Loan guarantees have been in effect at the local and national levels since 2001 and 2009, respectively. Since 2009, the VDB has been entrusted with the management of both the central fund and the local funds. Vietnam's CGFs have a registered capital of VND 1.5 trillion. (OECD)

As mentioned earlier, SMEs in Vietnam have limited access to finance to make the investments they need to export. The traditional banking system, which relies heavily on hard information (e.g., reliable financial statements) and collateral to assess risk, limits SMEs' access to credit. The CGF provides guarantees in the form of bank loans through Treasury support funds or its own equity. In this way, the CGF provides a guarantee to borrowers and aims to improve the quality of borrowers' collateral. In other words, the CGF acts as a guarantor for credit-constrained enterprises that have difficulty accessing credit due to insufficient collateral. With the help of CGF guarantees, SMEs have better access to credit at lower cost and with longer maturities. This gives them the opportunity to strengthen their financial capacity to overcome export barriers and make the necessary improvements in terms of sustainable principles.

National Trade Promotion Program (NTPP)

The government launched its first NTPP in 2010, which serves as a source of funding for business associations, trade promotion organizations, and local governments to support initiatives to increase the export capacity of companies. Considering Vietnam's size and export potential, the NTPP's annual budget for 2018 was only VND103 billion (about USD4.3 million).

Since the launch of this project, nearly 3000 enterprises have participated in the trade promotion activities and signed nearly 10 billion USD of export contracts (MOIT, 2019).

E-commerce policies

The promotion of e-commerce is another tool used by the government to increase the participation of SMEs in international trade. In this regard, a National Program for the Development of E-commerce (2014-2020) was approved by the Prime Minister in 2014 and implemented under the National E-commerce Master Plan 2016-2020.

VIETRADE announced in January 2019 a partnership with Amazon Global Selling to promote the export and brand strength of Vietnamese enterprises through e-commerce from 2019 to 2021. This collaboration includes a global e-commerce export and brand development program and e-commerce training for Vietnamese enterprises.

Innovation support programs

A number of government agencies have been established to promote business innovation, including the National Foundation for Science and Technology Development (NAFOSTED), the State Agency for Technology Innovation (SATI), and the NATEC.

NAFOSTED's mission is to strengthen national capacity in science and technology, improve the quality of research, and develop high-quality human resources in science and technology. The support program includes activities such as funding participation in international conferences, short-term research abroad, organizing international conferences in Vietnam, publishing research results in domestic and foreign journals, and supporting the use of key laboratories. NATEC and SATI also offer funding programs, including international cooperation activities for startups.

2.1.5.5 Conclusion of Review

Challenges

- Vietnam's SME policy is relatively new.
- There are only a relatively small number of targeted programs for SMEs.
- SMEs have a reasonable share of national exports, but most of them are foreign-owned.
- SMEs have difficulty in locating global markets, contacting foreign customers, gathering business information, and identifying export potential.
- SMEs lack professional management and staff knowledgeable about exporting.
- SMEs lack funds to finance investments for export.
- The level of digitalization is low.
- Non-exporting SMEs are small and cannot access government support programs.
- Government performance in policy evaluation is not satisfactory.

Lessons Learnt

- FTAs are key to the excessive growth of exports and FDI in Vietnam.
- Vietnam has significantly reduced its corporate tax rate and is considering a preferential tax regime for SMEs.
- The government does a good job of monitoring policies, which increases policy effectiveness.
- The government promotes business development services that are non-financial and aim to improve the ability of businesses to compete in international markets through mentoring.
- The government has established the VIETRADE, which actively supports SME export activities through the Support to Trade Promotion and Export in Vietnam program.

Needs for Further Improvement

- The extent of the obstacles is perceived differently by public institutions and companies. Therefore, the measures implemented by public institutions do not fully meet the needs of businesses. In this regard, the design of the new policy should pay more attention to the obstacles that companies experience in internationalization.
- The main financial programs for SMEs, the SMEDF and the Credit Guarantee Fund (CGF), while useful, are hardly used by SMEs.
- SMEs need to improve their business and financial management skills and knowledge of business law to compete in the global market and compete with international corporations (Nguyen, 2020).
- The government provides training programs for those entering the workforce and the unemployed. However, on-the-job training, which is very important for internalization, is very limited.
- Most attention is paid to trade facilitation and trade promotion programs. A coordinated and comprehensive export readiness program would be useful (OECD, 2021).

2.2 Field Visits

2.2.1 Malaysia

2.2.1.1 Background

Malaysia, a country in Southeast Asia, has a system of federal constitutional monarchy consisting of thirteen states and three federal territories divided by the South China Sea into two regions called Peninsular Malaysia and East Malaysia in Borneo. Malaysia has a population of over 32 million people. The country is home to a variety of ethnicities and cultures, both of which exert a significant influence on the country's politics. About half of the population is Malay, joined by Chinese, Indians, and indigenous peoples. The official language of Malaysia is Malay; English is the active second language.

Since independence in 1957, Malaysia has experienced strong and sustained growth (6.5 percent per year), except for periods such as the Asian financial crisis in 1997, the global financial crisis in 2008, and, more recently, the COVID-19 pandemic in 2020. Malaysia's long-term growth performance has enabled remarkable progress in social and economic development. For example, real GDP per capita has increased ninefold over the past seven decades, from $1,200 in the early 1960s to $10,400 today. Table 2.19 provides an overview of recent trends in the Malaysian economy.

Table 2.19. Key Indicators of the Malaysian Economy

	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion 2015 US$)	301	301	319	359	365	337	373
GDP per capita in current prices (2015 US$)	9,955	9,818	10,259	11,380	11,433	10,412	11,371
Growth rate of GDP (%)	-	4.4	5.8	4.8	4.4	5.5	3.1
Inflation rate (%)	2.1	2.1	3.7	1.0	0.7	-1.2	2.5
Unemployment rate (%)	3.1	3.4	3.4	3.3	3.3	4.5	4.6

Source: *World Bank Development Indicators Database and Department of Statistics Malaysia (DOSM)*

In recent decades, Malaysia has successfully diversified its economy from one that was originally agricultural and commodity-based to one that is now home to a robust manufacturing and service sector that has made the country a leading exporter of electrical equipment, parts and components. The country is a founding member of many international organizations such as Association of Southeast Asian Nations (ASEAN), the East Asia Summit (EAS), OIC as well as a member of Asia-Pacific Economic Cooperation (APEC), the Commonwealth and the Non-Aligned Movement.

Today, Malaysia is one of the most open economies in the world, with an average trade balance ratio of over 130 percent in the last decade. This very high openness to trade and similarly welcoming policies for foreign investment have contributed significantly to job creation and income growth, with about 40 percent of Malaysia's jobs linked to export activities. After the

Asian financial crisis of 1997-1998, the Malaysian economy has recovered with average growth of 5.4 percent since 2010 and is expected to move from middle-income to high-income status by 2024.[6]

2.2.1.2 Foreign Trade

Malaysia's exports increased significantly before the global financial crisis, hovering around US$300 billion. Between the years 2009 and 2018, exports fluctuated around $165 million to $235 billion.

In 2021, Malaysia's top export sectors were electrical and electronic products (40 percent), palm oil and palm oil-based products (10 percent), refined petroleum products (5 percent), and liquefied natural gas (3.5 percent).

China and Singapore are Malaysia's top export partners in December 2021, accounting for a combined 29.8 percent of total exports. The United States' share of total exports is 11.2 percent in December 2021, while the EU's share remains at 8.2 percent. In short, ASEAN countries contributed 27.2 percent to Malaysia's total exports.

Similar to exports, Malaysia's imports also increased significantly before the crisis (Figure 2.19). Similar to exports, imports stalled after the global financial crisis and fluctuated during 2009-2020.

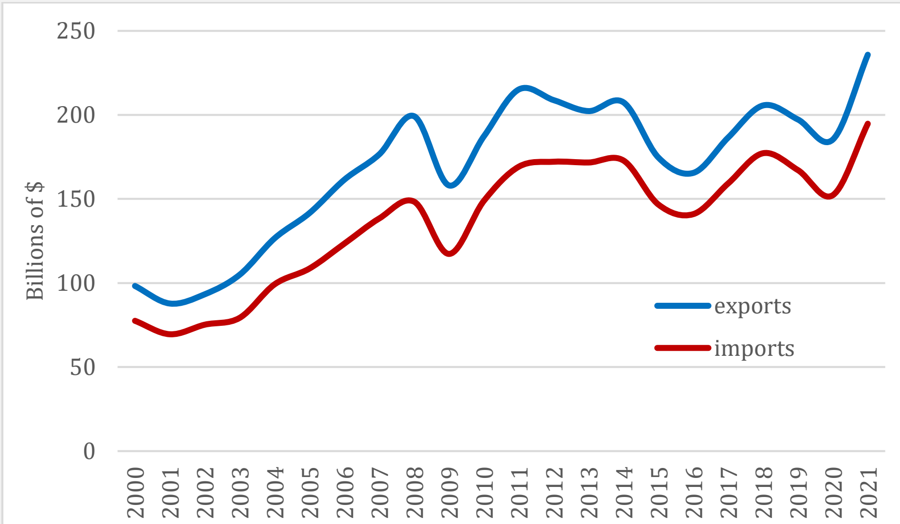
Malaysia's main import sector is intermediate goods, accounting for 55.1 percent, such as industrial supplies, parts and accessories of capital goods, and fuel and lubricants. Imports of capital goods account for about 11 percent of total imports. Imports of consumer goods (8.6 percent of total imports) include short-lived goods, food and beverages, and durable goods.

China is Malaysia's main importing country, accounting for a very high share of about 24 percent. Malaysia's other import partners are Singapore, Taiwan, Japan, the EU, Indonesia, and the Republic of Korea, with shares ranging from 5 to 10 percent.

Malaysia has run a trade surplus throughout the 2000-2020 period. The surplus increased until the global financial crisis. The trade surplus declined until 2016 and then increased again.

[6] https://www.worldbank.org/en/country/malaysia/overview

Figure 2.19. Exports and Imports of Malaysia, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

2.2.1.3 SMEs and Internationalization

The original 2005 definition of MSMEs was renewed in 2013 due to changes in inflation, structural changes, and changing business trends. Malaysia's MSME definition covers all sectors, i.e., services, manufacturing, agriculture, construction, and mining and quarrying, based on the threshold, type of establishment, and equity structure (see table 2.20).

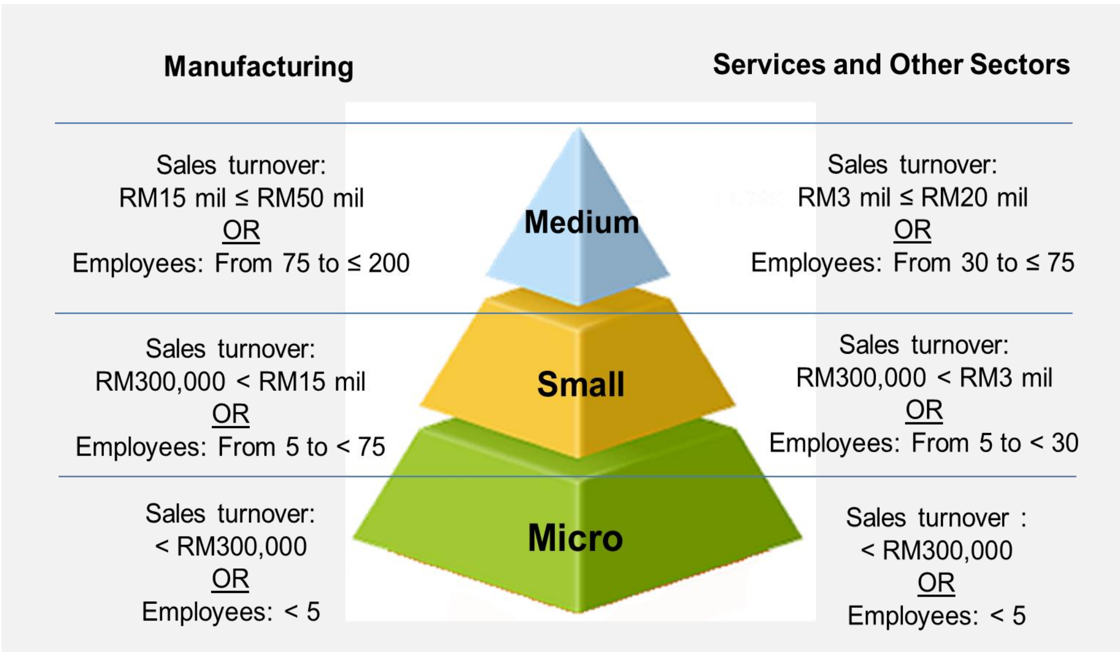
Table 2.20. An Overview of the SME Definition of Malaysia

Qualifying Criteria	Type of Establishment	Shareholding Structure
• ***Manufacturing:*** Sales turnover ≤ RM50 million or full-time employee ≤ 200 workers • ***Services and other sectors:*** *Sales turnover ≤ RM20 million or full-time employees ≤ 75 workers*	• ***Established in Malaysia*** under the companies Act 1965 or • ***Registered*** under the Registration of Business Act (1956) or Limited Liability Partnership (LLP) Act 2012 or • ***Registered*** under respective authorities or district offices in Sabah or Sarawak; or • ***Registered*** under respective statutory bodies for professional service providers	• ***Not publicly listed*** on the main board of Malaysia or in other countries • ***Non subsidiaries*** of large firms, MNCs, GLCs, Syarikat Menteri Kewangan Diperbadankan and State-owned enterprises, • ***Not a subsidiary*** of a publicly listed company on the main board in Malaysia or in other countries.

Source: *SME Corp. Malaysia*

Malaysia has different thresholds for manufacturing and services, as well as other sectors, based on either turnover or the number of full-time employees of firms. A detailed definition of the categories, namely micro, small, and medium enterprises, is shown in Figure 2.20.

Figure 2.20. Sectoral Threshold Qualifying Criteria of SMEs in Malaysia



Source: *https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition.*

Like everywhere else in the world, SMEs play an important role in the economy. More than 97 percent of enterprises in Malaysia are MSMEs, as shown in Table 2.21. In 2021, there are 1,226,494 MSMEs in Malaysia. Among MSMEs, 78.6 percent are MEs with less than 5 employees or sales of less than 300 thousand RM, while medium-sized enterprises account for only about 1.6 percent of MSMEs.

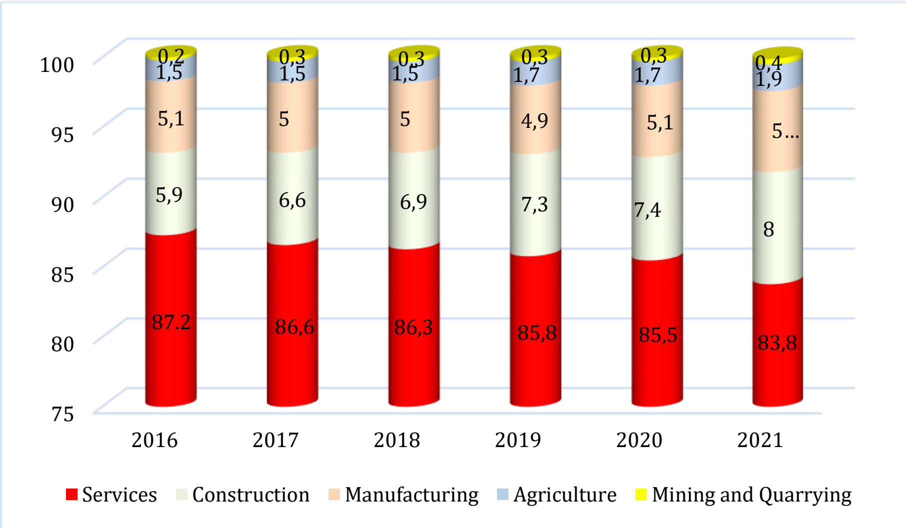
Table 2.21. Profile of MSMEs in 2016-2021

	#MSMEs	Share of MSMEs	Distribution of MSMEs by size		
	(thousand)	(%)	Micro (%)	Small (%)	Medium (%)
2016	1,086	97.9	74.9	23.3	1.8
2017	1,154	97.6	76.5	22.0	1.6
2018	1,150	97.4	78.3	20.2	1.5
2019	1,182	97.3	78.3	20.1	1.6
2020	1,151	97.2	78.4	20.0	1.6
2021	1,226	97.4	78.6	19.8	1.6

Source: *SME Corp. Malaysia*

The most important sector of the MSME economy is the service sector, which accounts for more than 80 percent of all MSMEs, as shown in figure 2.21. The second largest contributor of MSMEs is the construction sector, with a share of 8.0 percent. The shares of the manufacturing and agricultural sectors in all MSMEs are 5.8 percent and 1.9 percent, respectively. The mining and quarrying sector accounts for only 0.4 percent of MSMEs in 2021.

Figure 2.21. Sectoral Distribution of MSMEs in 2016-2021



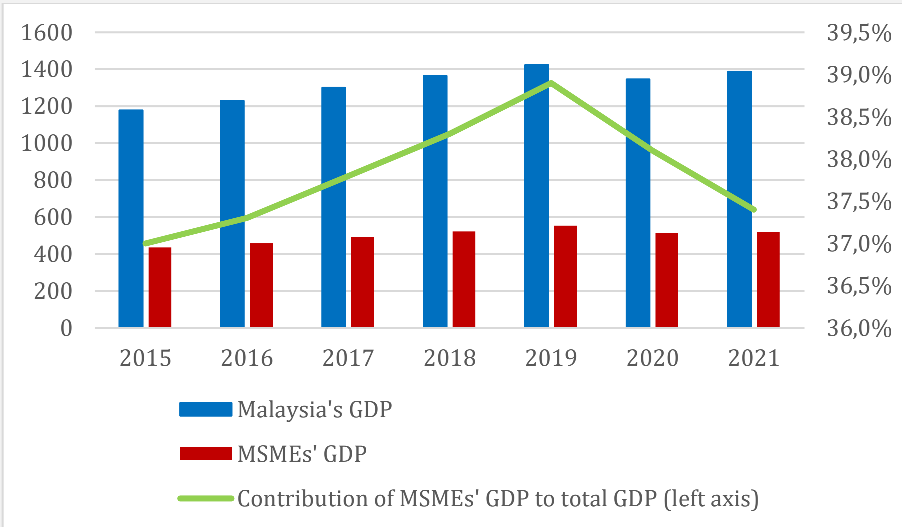
Source: *SME Corp. Malaysia.*

Although the majority of enterprises in Malaysia are MSMEs, their contribution to GDP and employment in Malaysia is limited. The contribution of MSMEs to GDP was 37.4 percent in 2021 with a value added of RM518.1 billion, as shown in Figure 2.22.

The services sector is the main sector in which MSME employment was most concentrated. Services sector employment accounted for more than 63.2 percent of total MSME employment in 2021, followed by manufacturing with a share of 16.6 percent, as shown in Figure 2.23. MSME employment in the agricultural and construction sectors accounted for 10.8 percent and 9.1 percent, respectively. The mining and quarrying sectors contributed only 0.3 percent to MSME employment in Malaysia.

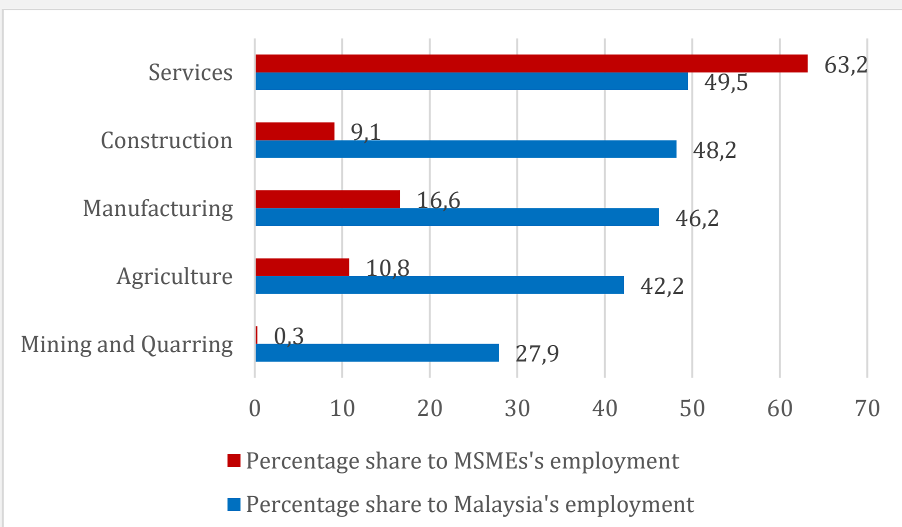
There are 1.2 million registered businesses in Malaysia. Estimates suggest that almost the same number of informal enterprises are active (Box 2.2).

Figure 2.22. Value-Added and Contribution of MSMEs' GDP to Malaysia's GDP 2015-2021



Source: *SME Corporation Malaysia.*
Note: *The numbers are in constant 2015 prices.*

Figure 2.23. MSMEs' to Employment by Kind of Economic Activity in 2021



Source: *Department of Statistics Malaysia (DOSM).*

Box 2.2. Initiatives to Reduce Informality

There are 1.2 million registered companies in Malaysia. Estimates suggest that almost as many informal businesses are active. There are several categories of informality: (i) naturally informal (e.g., agriculture); (ii) opportunistic informal businesses (they do not pay for certificates or social security expenses of employees); (iii) seasonal entrepreneurs (e.g., cookie sellers during the vacation season); and (iv) businesses that work from home. Although it is not possible to formalize some of the informal businesses in categories (i) and (iii), the government has taken several initiatives to encourage informal businesses to formalize.

1. Companies with less than RM500,000 are tax exempt. In other words, micro enterprises are not taxable, which is an initiative to reduce informality.
2. There are many incentives and financial support for MSMEs. However, in order to apply, MSMEs must meet the first requirement which is that they are registered.
3. The youth development program is an awareness initiative. Applicants are placed in centers and educated about entrepreneurship during a three-week training. At the end of the training, participants must register. A total of 4000 young entrepreneurs are registered under this program.
4. There is a micro-connector program for diverse communities, disabled, indigenous women, etc. to give them the support and training they need to register. There is also the startup program to develop strategies and build capacity, build skills, particularly for the firms operating in the informal system.
5. Informal Financing Scheme (SPIN) finances entrepreneurs who no longer hold a business registration (SSM) or local government license (PBT) to help entrepreneurs who started a business without a SSM or business license during the difficult times of the COVID-19 pandemic. The government offers initial financing from RM1,000 up to RM5,000 with low interest rates and an approval process that takes only 7 business days. If these entrepreneurs wish to obtain financing from the government for the second time, they must register. The government offers a one-day course for the first loan to raise awareness. Even if the businesses do not register after receiving the loan, they are still in the government's database.

Exports of SMEs

In Malaysia, MSME exports were worth RM124.3 billion in 2021, an increase of 5.4 percent driven by the manufacturing sector (16.7%) and the agriculture sector (20.4%). The contribution of the manufacturing sector to total MSME exports reached 76.6 percent in 2021, and was composed of various manufactured products, industrial goods, and chemicals. The main export partner of MSMEs was Singapore, which accounted for 18.8 percent. The other major destination countries were China (16.5 percent) and the United States (10.3 percent).

Agricultural sector exports accounted for 2.3 percent of total MSME exports in 2021. MSME exports from the services sector declined significantly in 2020 and 2021, mainly due to the impact of the pandemics on travel. The contribution of MSME exports to total exports in 2021 was 11.7 percent (Table 2.22). Manufacturing contributed 9.0 percent, while the contributions of services and agriculture were limited to 2.5 percent and 0.3 percent, respectively.

Table 2.22. Sectoral Contribution of MSMEs' to Exports of Goods and Services in 2021

	Total	Manufacturing	Services	Agriculture
2017	17.3	8.3	8.9	0.3
2018	17.3	8.4	8.7	0.2
2019	17.9	8.6	9.1	0.2
2020	13.5	9.4	3.9	0.3
2021	11.7	9	2.5	0.3

Source: *SME Corporation Malaysia.*

Malaysia has set a national target to increase the share of SMEs in exports from 17 percent to 25 percent in 2025 and to 30 percent in 2030. There have been some slippages due to pandemics, and it is expected that the targets will be revised.

As part of the NSDC (The National Council for SME Development) and later NESDC (National Entrepreneur and SME Development Council) Secretariat's duties, the SME Corp. Malaysia conducts survey on SMEs to monitor their performance. In the last survey conducted in 2019, 1,346 SMEs responded, of which 62.3 percent were from the services sector, followed by the manufacturing sector with a share of 31.2 percent, the construction sector with a share of 4.5 percent, and the remaining 1.9 percent from the agriculture sector. The respondents were mainly micro and small firms (83.3 percent), while the share of medium-sized firms was only 16.7 percent.

According to the results of the SME survey, 16.6 percent of the SME respondents export their products and services abroad. The exporters are mainly SMEs from the manufacturing sector. Of the exporters, 13.5 percent were exporting for the first time, mainly to the ASEAN region and China.

In the survey, 88.3 percent of exporters said they increased their sales and profits. They cited expanding existing business (49.3 percent) and overcoming growth constraints in the domestic market (41.3 percent) as benefits of exporting.

2.2.1.4 SME Internationalization Incentives and Initiatives

Institutional Framework

In 1996, a specialized agency known as the Small and Medium Industries Development Corporation (SMIDEC) was established under the Ministry of International Trade and Industry (MITI) to spur the development of small and medium industries by providing infrastructure support, financial assistance, advisory services, market access and various other support programs. SMIDEC also aimed to develop capable and resilient Malaysian SMEs to be competitive in the global market.

The National SME Development Council (NSDC) was established in 2004 as the highest policy-making body with Central Bank of Malaysia appointed as the secretariat of the NSDC. The council pursued four objectives: (i) formulating policies for SME development in Malaysia, (ii) coordinating SME programs implemented by relevant ministries and agencies, (iii) promoting partnerships with the private sector, and (iv) ensuring effective implementation of overall SME development programs in the country. The NSDC's major initiatives have been to improve SME access to finance, provide SME advisory, information, training, and marketing services, and create a comprehensive SME database.

In 2007, there was a structural change in the institutional framework for SME development in Malaysia. SMIDEC assumed the role of secretariat of NSDC and was rebranded to SME Corporation Malaysia (SME Corp. Malaysia) in 2009. The focus of the institution was placed on entrepreneurship and SME development. As the Central Coordinating Agency (CCA) for overall SME development, SME Corp. Malaysia coordinate, streamline, monitor, and evaluate the progress and effectiveness of SME development programs implemented by 15 ministries, 53 agencies and 6 central agencies annually. The report is published in the SME Integrated Plan of Action (SMEIPA).

With greater emphasis now placed on entrepreneurship development, the name of the NSDC was rebranded to the National Entrepreneur and SME Development Council (NESDC) in 2019 and the Ministry of Entrepreneur Development and Cooperatives assumed the role of secretariat of NESDC.

The Council consists of 18 prominent members in relevant positions:

- Prime Minister as Chairman
- Minister of Entrepreneur Development and Cooperatives
- Minister of International Trade and Industry
- Minister of Finance
- Minister of Agriculture and Food Industry
- Minister of Science, Technology and Innovation
- Minister of Rural Development
- Minister of Higher Education
- Minister of Tourism, Arts and Culture
- Minister of Domestic Trade and Consumer Affairs
- Minister of Plantation Industries and Commodities
- Minister of Housing and Local Government
- Minister of Communication and Multimedia
- Minister of Prime Minister Department (Economy)
- Minister of Sabah State Government
- Minister of Sarawak State Government

- Chief Secretary to the Government
- Governor of Bank Negara Malaysia

SME Corp. Malaysia was placed under the Ministry of Enterprise Development (MED) as an agency in 2018, now rebranded to the Ministry of Entrepreneur and Cooperatives Development (MECD). Along with that, the role of the NESDC Secretariat is now being undertaken by the Ministry.

The SME Masterplan (2012-2020) launched in July 2012 has laid the development path for MSMEs as the country prepares itself towards becoming a high-income nation. The Masterplan created the development framework comprising four strategic goals, six focus areas, 32 measures including six High Impact Programs (HIPs) and institutional support to drive these plans. The Masterplan targeted to push further MSME contribution to GDP to 41% by 2020 while the targets for exports and employment were 23% and 65% respectively.

Core Institution: SME Corporation Malaysia

SME Corp. Malaysia is a Central Coordinating Agency (CCA) whose objective is to promote the development of competitive, innovative and resilient SMEs through effective coordination and provision of business support. The agency's first mission is to be the central point of reference for information and advisory services for SMEs nationwide.

SME Corp. Malaysia provides business advisory services and information to SMEs and entrepreneurs through its SME Hub, located at its headquarters in Kuala Lumpur, as well as 12 states offices throughout the country. SME Hub also functions as the Entrepreneurship One-Stop Center of the Ministry of Entrepreneur and Cooperatives Development (OSC-MECD), which houses various agencies under MECD including Malaysia Co-operative Societies Commission (SKM), Co-operative Institute of Malaysia (CIM), TEKUN Nasional (TEKUN), National Entrepreneurship Institute (INSKEN), Bank Rakyat, SME Bank, UDA Holdings Berhad (UDA), Perbadanan Nasional Berhad (Pernas), and Amanah Ikhtiar Malaysia (AIM), among other agencies; such as the Intellectual Property Corporation of Malaysia (MyIPO) and the Royal Malaysian Customs Department (RMCD), which provide advisory services and facilitation for SMEs and entrepreneurs.

The agency's other responsibilities include:

- Coordination of SME development programs;
- SME Economic assessment
- SME accreditation
- Business development and support programs
- Access to domestic and international markets

The Agency's business plan includes four main strategies: (i) strengthening the mandate and functions of the Central Coordination Agency through more effective coordination and implementation; (ii) developing content and capabilities to support the Ministry in SME strategies; (iii) preparing and analyzing factual data related to SMEs; and (iv) strengthening the Agency's working culture and business modalities, including revenue generation. In 2022, a total of 213 entrepreneurships and MSME development programs are being implemented by 15 ministries, 53 agencies and 6 sole agencies with a total allocation of RM14.7 billion, benefiting 479,588 MSMEs.

The SME Central Incentives System (SCenIc) is an integrated database on beneficiaries of MSME programs that serve as reference in making informed-decision for effective distribution of resources and incentives.

The agency will continue implementing initiatives and programs to address the specific needs of SMEs and entrepreneurs by providing support in the form of funding, human capital development and assistance in market access. This is done via various initiatives such as webinar sessions, outreach programs and pocket talks, in addition to collaboration with Associations, Non-governmental organizations, Chambers of Commerce and Foreign Embassies.

Peripheral Institutions

MATRADE is the national trade promotion organization in Malaysia under the MITI with the mission of promoting Malaysian products and services overseas. MATRADE's main services include export promotion, exporter development, trade and market information, and trade consultancy. MATRADE offers training programs for exporters. Seminars and workshops are organized on topics such as export access, trade documents, export procedures in specific markets, brand name development, product packaging, and international marketing. MATRADE also organizes National Export Day and eNational Export Day to inform local companies about the latest export opportunities around the world.

Credit Guarantee Corporation Malaysia Berhad (CGC) was established in 1972. Bank Negara Malaysia owns 78.65 percent of the shares, while commercial banks in Malaysia hold the rest. CGC's objective is to help MSMEs that have no or insufficient collateral and no track record to obtain credit facilities from financial institutions by guaranteeing these facilities. Since its inception, CGC has provided 490,000 guarantees and financing to MSMEs worth over RM82 billion.

SME Bank was established in 2005 by the Ministry of Finance as a development finance institution (DFI). SME Bank's objective is to increase economic growth in Malaysia by providing financing to SMEs and supporting capacity building of SMEs by improving their competitiveness. Basically, it covers the manufacturing and service sectors. It has commercial clients to balance the risk. SME Bank operates like a private company that is not financed by the government. The financing rate it charges depends on the program. For some programs, it offers companies better interest rates than market rates.

Center for Entrepreneur Development and Research Sdn Bhd (CEDAR) is a subsidiary of SME Bank since 2013. The subsidiary's objective is to provide SMEs with capacity building, skill development, and sustainable entrepreneurship development services, such as research-based consulting, business coaching, fund-based support, results-based mentoring, and business intervention. By 2022, 70,000 SMEs have been trained by CEDAR.

MECD aims to create an entrepreneurial ecosystem that supports inclusion and sustainability in Malaysia and advances Malaysia in the international business arena. The ministry's mission includes promoting entrepreneurs' access to the global marketplace.

Major Support Programs

Programs offered by SME Corporation Malaysia

There are many programs implemented by SME Corp. Malaysia to support the internationalization of SMEs, such as:

Glocal Linkages SME Program (GLOSMEP) is an integrated platform for MSMEs and business partners to initiate business discussions and potential business in accessing the domestic market and the global supply and value chain, launched in 2021. It enables collaboration with market suppliers for specific and niche markets.

The MatchMe platform is one of the main components of GLOSMEP, which was launched in June 2021 to facilitate MSMEs' access to the new standard's markets. Aimed at connecting companies worldwide through networking and virtual business initiation, MatchMe has three main functions: (i) showcasing products or services; (ii) accessing an active database of companies locally and globally; and (iii) one-to-one networking and business meetings.

The SME Go Global Program is a government initiative focused on internationalizing local SMEs and targeting export-ready companies. The program is primarily designed to facilitate the expansion of SMEs in high-growth industries into global markets. In addition, SMEs that are already exporting and want to enter new markets can apply for the program. The program is open to licensed SMEs that have been operational for at least three years, have annual sales of at least RM 3 million and a rating of at least 3 stars from SCORE (Box 2.3).

Support is either 50 percent of the total project cost or a maximum of RM200,000.00 (whichever is less). The program supports the following activities:

- Market linkage services
- Services from professionals in the field
- Rental of an overseas sales promotion office
- Production of product prototypes for international buyers
- Supply chain management activities
- Audit visits to Malaysia by international buyers
- Overseas market immersion activities
- Quality and standard certification
- Participation in e-marketplace

Box 2.3. SME Competitiveness Rating for Enhancement (SCORE)

SCORE was introduced in 2007, and is a diagnostic tool for assessing and improving the competitiveness of SMEs based on their performance and capabilities. SCORE also allows policymakers to identify strengths and weaknesses to enable more targeted facilitation and support.

SCORE has seven evaluation criteria namely Financial Strength, Business Performance, Human Resources, Technology Acquisition and Adoption, Certification and Market Presence.

The main objectives of SCORE are (i) as gateway to SME development Programs; (ii) to facilitate linkages between SMEs to large enterprises, government-linked companies (GLCs), and hypermarkets; and (iii) to identify export ready companies for greater expansion and market access.

SCORE assigns star ratings, from 1 star to 5 star, to indicate the performance level of SMEs as below:

Rating	SME Characteristic	Assistance Given
0-2 Star	Very basic with manual / semi-automated processes	Integrated, handholding assistance
3 Star	Semi to fully automated Able to implement quality system Undertakes product and process improvements Intellectual Property registered Ready for export compliance certification	Recommend targeted measures for improvements, Capacity Building Programs, Developmental Programs
4 Star	▷ Fully automated ▷ Invest in product and process improvements ▷ Most likely exporting ▷ Certification for export	Linkage for market access and expansion, Business Matching with multi-national corporations / hypermarket / Export Facilitation Programs
5-Star	High level of automation ▷ Good branding / packaging ▷ Currently exports with compliance to export requirements	

Source: *SME Corporation Malaysia.*

The National Mark of Malaysian Brand is a certification system that illustrates the quality, excellence and distinctiveness of Malaysian companies' products and services through assessments, audits and surveillance activities. One of the goals of this program is to change the perception that domestic goods are of lower quality. The registered companies with an international standard certification and a minimum rating of 3-STAR under the SCORE program (Box 2.3) are eligible to apply.

The companies awarded with the National Mark of Malaysian Brand are widely promoted in the media. Their access to local and international trade promotion will be facilitated. They will be invited to special trainings and programs.

MyAssist MSME@SME Hub is an online platform for MSMEs and entrepreneurs to gain knowledge, learn best business practices, and get vital information on business start-ups, market access, human capital development, financial resources, industry know-how, and various other business aspects.

OSC-MECD aims to equip MSMEs with clear and targeted information as well as knowledge to promote MSME development in Malaysia. To ensure that this initiative also covers MSMEs in rural areas, 'SME Hub On-Wheels' was introduced to provide business advice to MSMEs located there in those areas.

The information provided through this platform is not only limited to programs implemented by SME Corp. Malaysia, but also agencies under MECD such as TEKUN, INSKEN, Cooperative Institute of Malaysia (CIM), SME Bank, Bank Rakyat, UDA Holdings, Perbadanan Nasional Berhad (Pernas), Perbadanan Usahawan Nasional Berhad (PUNB), Amanah Ikhtiar Malaysia (AIM) and various other financial relevant institutions.

The Bumiputera Export Promotion Program (GEB) is implemented by SME Corp. Malaysia in collaboration with the Majlis Amanah Rakyat (MARA). The Program supports a wide range of capacity building initiatives to assist SMEs to grow their businesses locally and abroad as well as increase the number and develop pre-export capabilities of Bumiputera SMEs with high performance and potential for the export market and create a domestic supply chain among Bumiputera SMEs.

The assistance is provided in the form of matching grant and soft loan. The matching grant portion of maximum RM500,000 is implemented by SME Corp Malaysia for capacity building activities while soft loan for working capital financing of maximum RM5 million is managed by MARA.

Program offered by SME Bank, MEDC and MATRADE: Business Export Program (BEP)

This is an interagency cooperation program aimed at increasing the contribution of SMEs to the country's exports. The program offers a grant of up to RM 200,000 as well as business financing from SME Bank. The number of companies eligible for the program is limited. Export Readiness Assessment Tool (ERAT) (Box 2.4) Testing and company visits are used for recruitment. MECD plays an active role in the assessment. Companies are trained on their weaknesses. The program provides business matching and funding. Previously, the program was more focused on manufacturing, but now more of the service sector is involved, e.g., content creation.

Program offered by Teraju and MATRADE: Bumiputera Initiative for Globalization

This is a comprehensive development program to promote export capability. This program is similar to the BEP but targets different groups. Funding is provided by TERAJU.

Programs offered by MATRADE

There are many programs initiated by MATRADE. In 2022, the total number of programs offered by MATRADE to promote exporters is 2022 (as of July 2022) and the breakdown of programs is shown in Figure 2.24:

Figure 2.24. Summary of Exporters Development Programs in 2022

Bumiputera, Women and Youth 20 events	Exporters advisory 25 events	eTRADE 2.0 36 events	Mid-tier companies 10 events
Exporters training 40 events	Services export fund 24 events	Business information center 28 events	MyExport 4 events
Market development grant 10 events	MEEC 7 events	x-SEED 25 events	eCommerce Ecosystem 3 events

Source: *MATRADE.*

To better allocate funds and use resources efficiently, they generally use SCORE (Box 2.3). Companies with 4 and 5 stars at SCORE are considered export-ready. Sometimes the export-ready companies are not included in the programs, but only invited. There is also a ERAT test (Box 2.4) with 23 questions. If a company scores 17 or more on ERAT and passes the site visit, it is recognized as export ready.

The Bumiputera, Women, Youth and Exporters Development Program is a three-year program that produces competitive and sustainable bumiputera, women, and youth exporters. Companies receive training, market information, capacity building, and one-on-one counseling. A needs assessment is offered.

Box 2.4. Export Readiness Assessment Tool (ERAT)

MATRADE offers a quick, online system, ERAT, for MATRADE members to measure potential or prospect of exporting their products or services. ERAT is comprised of 23 questions on the company and the product.

The SME Exporter Development Program supports capacity building, promoting sustainability and inclusiveness through collaboration with stakeholders in the export ecosystem.

The E-Trade Program promotes the adoption of e-commerce among Malaysian companies to accelerate exports through participation in cross-border e-commerce platforms and enhance SME presence through digital marketing. Trade training and online export promotion. The Onboarding Scheme provides a financial incentive worth RM 5,000 to cover part of the onboarding costs for participation in one or more eCommerce platforms. The Digital Marketing and Training Scheme provides a financial incentive worth RM 20,000 to cover part of the costs of digital marketing activities and/or eCommerce training programs focused on exports.

Launched in 2002, **the Market Development Grant (MDG)** is a financial assistance to partially cover the costs of export promotion for SMEs through a reimbursable grant. Beneficiaries include Malaysian SME companies, professional service providers, trade and industry associations, chambers of commerce, professional associations, and cooperatives. The maximum lifetime grant is RM 300,000. Participation in physical and virtual events such as international trade fairs or exhibitions in Malaysia/abroad, trade and investment missions (TIM) or export acceleration missions (EAM) and international conferences abroad are funded by MDG.

The Services Export Fund (SEF) is a financial assistance to encourage Malaysian service companies to promote the export of services, improve the competitiveness of service companies, expand the scope of export promotion to the service sector, and enhance Malaysia's profile in the world as a competent service provider. The SEF provides reimbursable grants to companies for many activities, such as travel expenses to international activities, holding meetings with potential partners abroad, providing services for overseas projects, and participation fees in international training programs.

The Business Information Center (BIC) requires companies to become members and provides company directories, country profiles, tariff lists, market reports, magazines, and statistics and business news.

Integrated Center for Export (ICE) is a comprehensive advisory service with a customized advisory platform, export information and financing options.

Myexport is a web-based portal providing key trade information and market intelligence to registered MATRADE members.

Program offered by SME Bank: Vendor Capacity & Capability Development Program (PPKV)

The program aims to improve the capacity and skills of bumiputera traders to make them more efficient, productive and technology oriented. This is to prepare them for accreditation and certification for the domestic and the international markets. PPKV covers capacity development, standardization and accreditation, training/education, technology transfer, purchase of new system/machinery/equipment, and upgrading of existing system. The grant is either up to 90% of the total cost or up to RM200,000, whichever is lower.

Programs offered by CGC

CGC does not provide direct support for the internationalization of SMEs. It does, however, provide clients with advisory services on access to finance and market access. Market access initiatives include expanding product distribution channels and integration into local and international markets.

imSME was launched in 2018 as the first online financing/credit intermediation platform for SMEs in Malaysia. With imSME, MSMEs can search, compare, and apply for financing online, spending less time and resources. Currently, 26 financial institutions (PFIs) offering more than 60 financial products, 10 peer-to-peer financing platforms, 3 equity crowdfunding platforms, 3 alternative financing agencies, and 3 capacity building agencies are on board imSME. To promote their programs, they use many platforms such as social media and train advertising.

2.2.1.5 Conclusion of Review

Challenges

Malaysia has an effective governing structure to formulate policies and strategies on SMEs with NESDC as the highest policy making body for SME Development. While the High Level Task Force for SME Development (HLTF) was formed to ensure the policies and strategies for SME development are carried out.

With 15 ministries, 53 agencies and 6 central agencies that are currently implementing MSME development programs, there are challenges in coordinating these programs. However, the CCA functions has led to a more structured coordination mechanism, resulting in a formation of a repository of information on SMEs, which is proven useful as a reference for planning and monitoring of SME development programs.

Generally, microenterprises in Malaysia are heavily reliant on domestic market rather than exports. Meanwhile SMEs are more focused at the lower end of the Global Value Chain (GVC) and have limited access to market information and data technologies. Hence focus needs to be given to transform microenterprises into small size firms through scaling-up and sustainability.

The government is prioritizing the cooperative movement. In general, it would be a good idea to bundle businesses, as they would benefit from economies of scale. However, it is not easy to get them to join together and work. They need chemistry.

The survey conducted by SME Corp. Malaysia in 2021 showed that 82.3% of MSMEs did not exports their products and services overseas, particularly the microenterprises, due to inadequate information on the target market (63.9%), higher operation cost (58.5%) and inadequate source of financing for export (58.0%).

Lessons Learnt

The internationalization of SMEs is one of the Malaysian government's strategic priorities. There is a National Entrepreneur and SME Development Council (NESDC) composed of 18 prominent members in relevant positions.

In Malaysia, SMEs must apply for the SCORE (Box 2.3) rating, developed by SME Corporation Malaysia, to be eligible for most of the support programs. SCORE has two (2) important elements, whereby the company needs to answer the questionnaires and undergo an audit interview/site visit by an auditor. SCORE also provides several benefits to both the government and the companies.

SME Corporation Malaysia shares the results of SCORE with various SME-related government agencies and institutions. A SCORE of 4 and 5 indicates that the company is ready for export, hence related government agencies and institutions that support SME internationalization may invite these companies for their programmes.

In addition, SCORE result also shows the weaknesses and strengths of a company, which makes it easier for the Government to address their weaknesses and strengths by enrolling them in the relevant development program.

ERAT is another rating conducted by MATRADE to test export readiness. It consists of 23 questions about the product and the company, plus a site visit. A score of more than 17 out of 23 indicates that the company has sufficient export capability. It offers similar benefits to SCORE.

There are many specialized programs offered and conducted each year by 15 ministries, 53 agencies and 6 central agencies involved in MSME development. Underserved SMEs such as Bumiputera, women and youth groups receive the necessary support to improve their skills and capacity. Some of the programs offer capacity building, while others offer financing to enter the global market as needed.

Evaluating the impact of the funding programs is very important to better allocate resources as it helps the government to improve these programs every year, and SMEs receive better services from the government when programs are improved based on the results of the impact assessment. Malaysia has established a holistic monitoring mechanism to measure the impact of entrepreneurship and SME development programmes. The outcome of the assessment was reported regularly to the NESDC and HLTF through the SME Annual Report and SMEIPA.

Most ministries and agencies that offer programs to support SMEs have introduced online application systems and services for SMEs. This has made it much easier and less time-consuming to participate in SME support programs. In addition, digitization has made the programs more accessible and available to everyone in Malaysia.

Needs for Further Improvement

Malaysia had a high level body, NESDC that responsible for formulating SME policies and strategies, which was chaired by the Prime Minister and was expected to meet at least once a year. Given that 15 ministries, 53 agencies and 6 central agencies are involved in SME promotion, Malaysia is looking into minimising incidences of duplication and maximising the effectiveness of programmes.

The Malaysian Government continuously identifies the need for MSMEs to become more involved in regional trade and business cooperation, aiming to enable more MSMEs to gradually shift from domestic to global focus.

2.2.2 Morocco

2.2.2.1 Background

Morocco, also known as the Kingdom of Morocco, is a country located on the western tip of North Africa. The population of the country is about 37 million. In the country, Arabic and Berber are the official languages. In addition, the Moroccan dialect of Arabic and French are also commonly used. Morocco is a semi-constitutional unitary monarchy. The executive branch is headed by the king and the prime minister, while the legislative branch is represented by the House of Representatives and the House of Councilors.

Morocco has taken advantage of its proximity to Europe and relatively low labor costs to develop an open market economy. The country is a member of the Arab League, the Union for the Mediterranean and the African Union. Morocco is the fifth largest economy in Africa and has significant economic influence in both Africa and the Arab world. Major economic sectors include agriculture, tourism, aerospace, automotive, phosphates, textiles, apparel, and subcomponents. In recent years, Morocco has benefited from three major structural trends that have opened a unique window to foster development: rapid demographic change, as evidenced by an increase in the working-age population, rapid urbanization, and rising enrollment rates (World Bank 2021).

Morocco has made undeniable progress since the early 2000s. The country's strong economic growth in the 2000s led to a sharp decline in the national poverty rate, particularly in rural areas, where it fell from 25.1 percent to 9.5 percent between 2001 and 2015. Morocco began a process of rapid economic convergence with southern European countries until the global financial crisis, which led to sluggish economic convergence and highlighted the need for additional structural reforms (Chauffour, 2018). Table 2.23 provides an overview of recent trends in the Moroccan economy.

Table 2.23. Key Indicators of the Moroccan Economy

	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	101	103	110	118	120	115	--
GDP per capita in current prices (US$)	2,875	2,897	3,035	3,227	3,235	3,059	--
Growth rate of GDP (%)	4.54	1.06	4.25	3.15	2.61	-6.29	--
Inflation rate (%)	1.56	1.64	0.75	1.80	0.30	0.71	1.40
Unemployment rate (%)	9.46	9.30	9.24	9.27	9.28	11.45	11.47

Source: *World Development Indicators Database*

Despite considerable efforts and successes, a consensus is emerging among government officials, development partners and political experts that the Moroccan development model is not sustainable. Morocco's reliance on high levels of public investment, government spending, and domestic demand is seen as unsustainable and has not led to high growth or job creation. For this reason, in 2019, the king tasked a special commission with identifying the causes of slowed growth and development over the past decade and finding solutions. The commission conducted a two-year nationwide consultation and presented an open diagnosis in May 2021. The report identifies four systemic "nodes" as the cause of slow progress: (i) a closed economy that favors incumbents, generates unproductive rent-seeking behavior, and discourages new entrants; (ii) lack of convergence of reforms, which diminishes their impact; (iii) weak technical capacity within the administration to design and implement reforms; (iv) lack of clarity in laws and regulations and their perceived arbitrary implementation; and distrust in the judiciary, which stifles citizen and business initiatives (CSMD 2021).

2.2.2.2 Foreign Trade

In Morocco, trade openness is 87 percent of GDP in 2020. Morocco ranks 60th in world exports and 52nd in imports. The process of economic openness and integration into the world economy is consolidated through the conclusion of FTAs with the United States, the EU, EFTA, Turkey, Arab League member states under the Greater Arab Free Trade Area, and Mediterranean Arab countries under the Agadir Agreement.

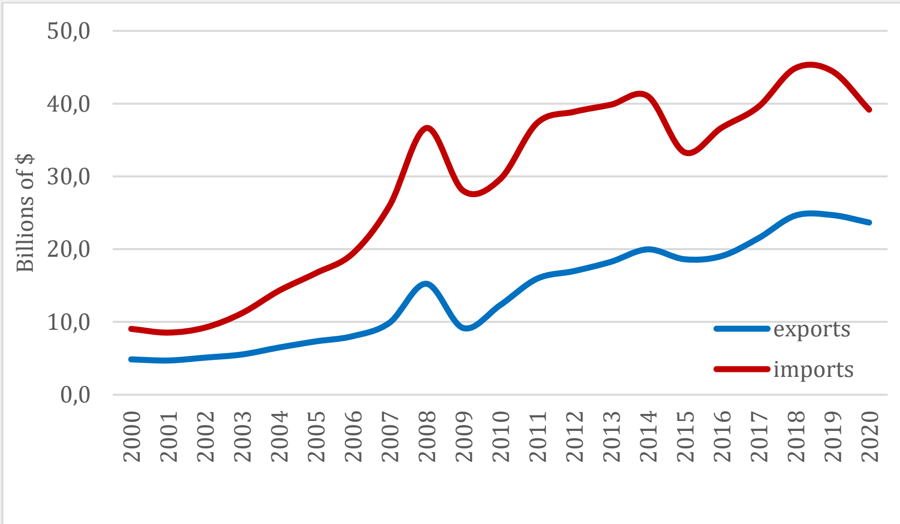
The value of exports has increased since 2000, except for the global financial crisis, reaching US$23.7 billion in 2021 compared to US$ 4.9 billion in 2000. Morocco's main exports are automobiles (11.8 percent), mixed mineral or chemical fertilizers (10.6 percent), and insulated wire (10.6 percent). The main export partners are Spain (21.7 percent), France (19 percent), and Italy (4.96 percent).

Morocco's imports are growing much faster than exports (Figure 2.25). Imports increase from US$9.1 billion in 2000 to US$39.2 in 2020. On the other hand, equipment goods account for 25.9 percent of imports, ahead of consumer goods (23 percent) and semi-finished products (21.3 percent). Morocco's main suppliers are Spain (15.4 percent), China (12.2 percent), France (12 percent), the United States (6.3 percent) and Turkey (5.5 percent).

While European countries are the main trading partners (65.8 percent of total trade), Morocco has also increased its trade integration with the rest of Africa, particularly through the ratification of the African Continental Free Trade Area agreement.

Morocco has a structurally negative trade balance that continues to deplete its foreign exchange reserves. The trade deficit was more than US$15 billion in 2020.

Figure 2.25. Exports and Imports of Morocco, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

2.2.2.3 SMEs and Internationalization

Morocco's SME policy dates back to the operational SME law enacted in 2002. The National Agency for SME Development (ANPME) was established by the same law. The policy principles, SME support associations, and mechanisms are all defined in the law. In Morocco, the SME definition is based solely on financial criteria, as shown in Table 2.24.

Table 2.24. An Overview of the SME Definition of Morocco

Category	Turnover (KRW)
Micro	Annual turnover ≤ MAD 10 m
Small and Medium	Annual turnover ≤ MAD 200 m

Source: *OECD (2018)*

MSMEs are important to the Moroccan economy. In 2018, 90 percent of the total number of active enterprises were SMEs. While SMEs accounted for 50 percent of total employment, their contribution to GDP and exports was limited to 20 percent and 30 percent, respectively (The World Bank, 2018). The African Development Bank Group (2021) estimates that MSMEs (both formal and informal) contribute to 35.7 percent of GDP and 73 percent of employment in Morocco.

Table 2.25 shows the sectoral analysis of MSMEs in Morocco. The sector "trade," "repair of cars and motorcycles" accounts for 33 percent of all MSMEs in Morocco, followed by "construction" with a share of 15 percent.

Table 2.25 Sectoral Distribution of SMEs in 2019

Sectors	Number of SMEs	Shares
Trade; automobile and motorcycle repair	151,734	35.2
Construction	70,356	16.3
Transport and storage	45,444	10.6
Specialized, scientific and technical activities	35,151	8.2
Manufacturing industry	28,907	6.7
Accommodation and catering	23,538	5.5
Agriculture, forestry and fishing	17,286	4.0
Administrative and support service activities	11,576	2.7
Human health and social action	10,447	1.4
Other service activities	9,333	2.2
Education	7,278	1.7
Real estate activities	6,650	1.5
Information et communication	6,022	1.4
Financial and insurance activities	3,002	0.7
Arts, entertainment and recreational activities	1,564	0.4
Industries extractives	1,468	0.3
Others	816	0.2
Total	**430,572**	**100**

Source: Bank Al-Maghrib (2021)

In Morocco, nearly 96.5 percent of businesses generate revenues of less than 10 million dirhams. In 2019, MEs with revenues between 0 and 1 million dirhams accounted for 84.4 percent of total enterprises. For companies with a turnover between 1 and 3 million dirhams, this percentage is limited to 7.5 percent. Large enterprises, on the other hand, account for only 0.3 percent of enterprises, as shown in Table 2.26.

Table 2.26. The Distribution of the Companies by Their Turnover (percent)

Companies' turnover in million dirhams	Shares
Turnover<=3 million dirhams	91.9
Turnover<=1 million dirhams	*84.4*
1 million dirhams<Turnover<=3 million dirhams	*7.5*
3 million dirhams<Turnover<=10 million dirhams	4.6
10 million dirhams<Turnover<=50 million dirhams	2.7
50 million dirhams<Turnover<=175 million dirhams	0.6
175 million dirhams<Turnover	0.3

Source: Bank Al-Maghrib (2021)

As shown in Table 2.27, in 2020, 86.8 percent of firms have a workforce of no more than 10 employees and those that do have between 11 and 50 employees. The share of large firms with more than 500 employees is limited to 0.3 percent.

Table 2.27. Breakdown of Companies by Number of Employees (percent)

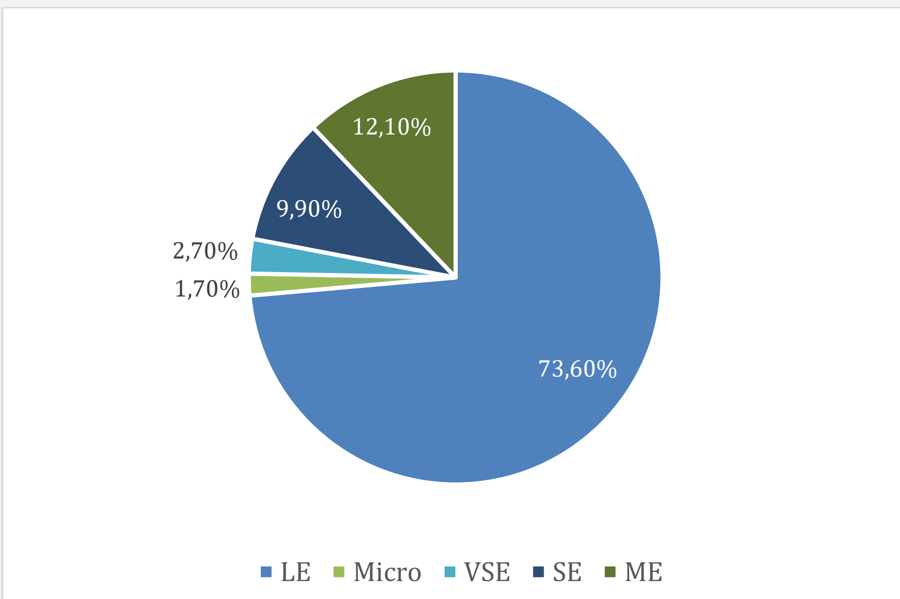
#Employees	2017	2018	2019	2020
0-10	86	86.1	86.3	86.8
11-50	10.4	10.4	10.3	10
51-100	1.7	1.6	1.6	1.5
101-500	1.5	1.5	1.5	1.4
500+	0.4	0.4	0.3	0.3
Total	100	100	100	100

Source: Bank Al-Maghrib (2021)

Export of SMEs

In 2019, the cumulative export turnover of companies in Morocco amounted to 306 billion dirhams, of which 73.6% was generated by large companies and 26.4% by MSMEs, as shown in Figure 2.26.

Figure 2.26. Breakdown of Cumulative Export Turnover by Category, 2019



Note: *Authors' elaboration.*
Data Source: *Bank Al-Maghrib (2021).*

Table 2.28 shows that MSMEs account for 26.4 percent of export sales. The positioning of MSMEs in the international market is particularly limited in the "extractive industries," "manufacturing," and "transportation and warehousing," with shares of 2.6 percent, 17.1 percent, and 25.6 percent, respectively. By contrast, "Wholesale and retail trade; repair of motor vehicles and motorcycles" and "Provision of professional, scientific and technical services" show an almost even distribution of export sales between large enterprises and MSMEs.

Table 2.28. Breakdown of Export Turnover by Business Category and sector, 2019

	Cumulative export turnover (in billions)			Shares (in %)	
	GE	TPME	TOTAL	GE	TPME
Manufacturing	116.72	24.04	140.76	82.9	17.1
Trade; automobile and motorcycle repair	26.85	25.27	52.12	51.5	48.5
Industries extractives	39.66	1.04	40.70	97.4	2.6
Transport and storage	17.94	6.17	24.12	74.4	25.6
Specialized, technical and scientific activities	6.97	7.20	14.17	49.2	50.8
Administrative services and support	5.28	7.21	12.49	42.3	57.7
Construction	4.21	3.02	7.73	60.9	39.1
Others	7.15	6.87	14.02	51.0	49.0
Total	225.28	80.82	306.10	73.6	26.4

Source: Bank Al-Maghrib (2021)

2.2.2.4 SME internationalization Incentives and Initiatives

Institutional Framework

The foundations of the institutional framework for SMEs in Morocco date back to the creation of the National Agency for the Promotion of Small and Medium Enterprises (Morocco SME, formerly ANPME) under Law 53-00. In 2006, the FOMAN (for consulting and technical assistance to SMEs) was established, and in 2008, a contract was initiated for a government program to modernize and support business competitiveness. In fact, SME policy is driven by the national economic development agenda. In this regard, the role of overseeing SME policy is performed by the Ministry of Industry, Investment, Trade and Digital Economy through two development strategies: the PNEI for 2009-2015 and the Industrial Acceleration Plan for 2014-2020 (extended to 2023 due to Covid-19).

In line with the National Plans, a new national strategy to promote small business development was developed in 2011. The main pillars of the plan were a simplified tax system, adjusted social contributions, expanded social security coverage, and special banking products. In addition, important incentives were provided to small businesses, such as a reduction in corporate income tax from 30 percent to 15 percent and tax incentives for the transformation of businesses into the formal sector.

In 2015, changes were introduced to reduce informality among MSMEs and allow informal businesses to enter the market. This is accompanied by tax and social benefits that can unleash the entrepreneurial potential of target groups belonging to different socio-professional categories. The Finance Act of 2019 introduced a reduction in the tax rate for self-employed entrepreneurs subject to income tax. Thus, the new rate is 0.5% (instead of 1%) for commercial, industrial and craft activities and 1% (instead of 2%) for services. In addition, public procurement has been opened to self-employed persons following the amendment of Decree No. 2-12-349 on public procurement in 2019.

Regarding entrepreneurship promotion, the Moroccan SME Agency supported 2,226 self-entrepreneurs and project managers in 2020. This brought the total number of beneficiaries to 15,000 since 2015.

Core Institution: The National Agency for the Promotion of SMEs (Maroc PME - former ANPME)

The Maroc PME has the following main tasks:

To develop the competitiveness and growth of VSMEs through support, advice, and technical assistance activities, as well as targeted and tailored investment support that creates added value and employment.

To strengthen the entrepreneurial ecosystem by developing business support systems and strengthening the intervention capacity of local actors.

The development and implementation of partnerships with the public or private sector, or both, to promote support and advisory programs for the benefit of businesses and the development of entrepreneurship.

Peripheral Institutions

The Moroccan Investment and Export Development Agency (AMDIE, formerly Maroc Export) is responsible for promoting national and international investment and the export of goods and services. The agency's mission is to support all sectors of the economy throughout their life cycle.

The National Confederation of Moroccan Enterprises (CGEM) was created in 1994 to promote MSMEs' access to finance and markets. It consists of 88,000 members from all over the country and from different sectors, and focuses on MEs. In the private sector, it is the main organization representing SMEs, with about 88,000 members from all over the country and from different sectors. CGEM is composed of "commissions," one of which represents the interests of SMEs. They also frame barriers to trade to SMEs to government (Box 1).

The National Committee for the Business Environment (CNEA) was established in 2009 as a multilateral platform from the public and private sectors to improve the business environment. Thanks to the CNEA's various reform efforts, the business climate in Morocco has improved significantly, as reflected in the Doing Business and Global Competitiveness Index rankings. Support for entrepreneurship consists of preparing the entrepreneur to be a value creator by putting key competencies at the service of his or her business, such as a spirit of initiative and creativity, the ability to seize opportunities and evaluate risks.

Box 2.5. Barriers to Trade of SMEs in Morocco

Augier, Castel, and El Malki (2019) conducted a survey of medium-sized exporting firms in 2017 that expanded on information from the World Bank's Enterprise Survey. The results indicate that 81 percent of firms find it difficult to develop exports.

For 57 percent of the companies, the main obstacle to exporting was the difficulty in developing markets, while 38 percent of them cited obtaining financing, transportation costs, and burdensome customs procedures as the biggest obstacle. The cost of hedging against exchange rate risk was cited as the third most common trade barrier, along with the lack of national support facilities and weak R&D, with 33 percent of companies citing this. Other trade barriers cited by respondents included obtaining information about the foreign market, the required European certificates, the cold chain, and the budget allocated for the export sector.

The survey was also conducted by AMICA representatives. They cited as obstacles the difficulty of obtaining funding, the difficulty of. hedging against currency risks, the difficulty of obtaining information about the foreign market, and the difficulty of entering foreign markets

During the on-site visit, a meeting was held with the CGEM, attended by various SMEs. Language was cited by the participants as the main obstacle to exporting. Most of the Moroccan SMEs speak French and Arabic. However, in many markets, English is essential. This prevents Moroccan SMEs from penetrating English-speaking international markets. Overcoming this barrier requires investment in the education system and long-term action.

Distance is an important determinant of exports. It is much cheaper to export to neighboring countries. Therefore, logistics are costly when exporting overseas as an SME. Using the cooperative system for exporting to achieve economies of scale would be a solution for SMEs. Access to finance (trade finance) and networks (trade information) are the other two barriers that SMEs face when exporting. Government support programs and international programs would help SMEs overcome these obstacles

Major Support Programs

Programs offered by Maroc PME

ANPME offers various programs for MSMEs to improve their competitiveness. However, they do not provide direct support for the internationalization of SMEs.

The **TATWIR/ STARTUP** Program targets start-ups with innovative industrial projects or services with high added value for industry. ANPME provides an integrated end-to-end support offering for startup industrialization projects.

The **NAWAT P**rogram is a long-term support offer for very small enterprises, supported by quality experts and technical advisors as well as international donors.

The **ISTITMAR** Program is aimed at SMEs of any size with a development project of large scale. Moroccan SME consultants guide companies through the application process. Maroc PME contributes financially to the investment projects. In 2020, 229 projects benefited from the ISTITMAR support program, an increase of 50 percent compared to 2019, generating investments of 2.8 billion dirhams.

The **MOWAKABA** program supports companies in their global transformation process by implementing complementary offers of expertise and technical assistance, digital transformation, and support for creativity and co-development projects. In 2020, 590 projects were supported with a total private investment of 114.5 MDH. To provide beneficiary companies with appropriate support services, the Moroccan SME Agency is setting up a digital platform to match business advisors, consultants, and specialized industry experts with the required skills and experience.

By joining the **Skills Transfer Platform (PTC)**, companies and service providers can benefit from real commercial visibility, access new markets and offer more attractive services to their clients thanks to the agency's financial contribution.

The **PTC** has more than 600 national and international consultants representing more than 320 consulting companies. In 2020, 230 new consultants joined the PTC, compared to 120 in 2019, an increase of 49%.

These offerings consist of support activities and financial assistance to meet the specific needs of SMEs and improve their industrial performance and profitability by covering the entire value chain of the company from design to product commercialization.

There are other support programs such as Operational Excellence, aimed at improving competitiveness and developing the company's operational performance; Market/Product Development, aimed at strengthening innovation capacity and developing new products or markets at national and international level or with contractors; Business Restructuring, aimed at restructuring and restoring the company's viability and competitiveness and improving corporate governance; and Digital Transformation, which supports the digital development of your company and deploys solutions for digital transformation.

Programs offered by AMDIE

AMDIE does not offer special support programs for MSMEs. However, MSMEs can benefit from many of AMDIE's support programs.

AMDIE helps Moroccan companies enter international markets by providing market information, advice, and support; offering assistance in entering new markets; and offering an export audit program for exporters.

AMDIE supports the internationalization of SMEs by promoting exports and international exhibition centers. AMDIE provides export promotion as follows:

- Recruitment of new international customers
- Networking Moroccan exporters with foreign contractors and institutional players in target markets
- Internationalization of Moroccan investors
- Export financing and hedging solutions
- Data on promising foreign markets

Support AMDIE in the internationalization of SMEs through international exhibition centers by:

- Providing exhibition space for national and foreign organizers.
- Organizing investment and export events
- Providing our expertise to exhibitors at national and international trade fairs

2.2.2.5 Conclusion of Review

Challenges

In Morocco, Maroc PME is the agency responsible for SME support programs. Maroc PME's already active support programs focus on capacity building and improving SME competitiveness. However, there is no program that directly addresses SME internationalization. AMDIE supports exports in the country but does not offer a specific program for SMEs.

As in many developing countries, the MSMEs in Morocco are mainly micro-enterprises. For these owner-operated SMEs, it is very difficult to search for the programs. In other words, SMEs are not sufficiently informed about support programs.

Maroc PME's support programs are limited to the manufacturing sector. However, the export of services is becoming more and more important.

Maroc PME is based in Rabat. It is problematic for distant SMEs to reach Maroc PME. Therefore, the support programs are not comprehensive.

Lessons Learnt

In Morocco, there are active cooperatives. In other words, SMEs that produce similar products work together. These cooperatives, exporting together, benefit from economies of scale. They achieve cheaper logistics and better trade information.

There is large FDI in Morocco, especially in the automotive sector. Over time, these multinationals support the capacity of their value chain. As a result, SMEs in the multinationals' supply chain become more competitive.

Needs for Further Improvement

Internationalization of SMEs are vital to achieve higher growth rates for developing countries. However, SMEs need more support compared to large companies to penetrate international markets. Special programs for internationalization of SMEs would enhance the exporting of SMEs.

Impact assessment and publishing the outcome with the public is a necessary action for accountability. Maroc PME is publishing the results of impact assessment regularly. However, they do not provide the impact of the support programs on exports of SMEs. Not providing a specialized program would be the reason. However, extra effort is necessary for Maroc PME on internationalization of SMEs (Box 2.6).

Support programs of Maroc PME is not inclusive. Both geographical coverage and the sectors are limited. Given that services exports becoming very important in the World, special support programs are necessary for the services as well.

To better allocate resources, SMEs that need support should know there are programs available to them. Therefore, an extensive promotion campaign is necessary.

Box 2.6. Impact Assessment of Support Programs

Since 2013, Maroc PME has started impact assessment of its support programs. In 2013-2014, a pilot action was carried out, followed by annual editions. The goal is to continue impact assessment as a factor to clarify decision-making, improve and adapt the support programs to the target (Maroc PME, 2020).

The indicators used to assess the impact of the support programs on the beneficiary companies are quantitative in nature and are related to the objectives sought by the agency in terms of turnover, value added and jobs.

The technique used in the impact assessment is based on the Difference in Differences method. It is based on the comparison of performance ex-ante (before processing) and ex-post (after processing) between companies benefiting from support programs and non-beneficiary companies.

The results obtained can be summarized as follows:

- The evaluation of 366 investment projects in 2012-2017 shows that for 100 MDH of government support, the impact in terms of induced value added is 267 MDH, and the additional turnover is 977 MDH. As for the creation of direct jobs, they amount to more than 2,286, while the number of indirect jobs created by these investment projects is 3,027.
- Regarding technical assistance, based on a sample of 502 beneficiaries in 2012-2017 and according to the "double difference" approach, the results show that each company benefiting from the Agency's actions has an average annual difference of +4.8 percent in sales (2.33 MDH) and +2.7 percent (298.1 KDH) in added value compared to a similar company but not benefiting from the Agency's actions.

2.2.3 Spain

2.2.3.1 Background

Spain is located in southwestern Europe with some of its territory in the Mediterranean Sea and the Atlantic Ocean. With more than 47.4 million inhabitants, Spain is the 6th most populated country in the continent of Europe and the 4th most populated one in the EU. Spain is considered an advanced economy, a constitutional monarchy and a parliamentary democracy. The country is a member of the EU, the Eurozone, the OECD and the WTO as well as many other organizations.

After the end of the Spanish Civil War in 1939, Spain's economy lay in ruins after years of war and devastation. After the war and until 2008, the economy made great strides, especially between 1959 and 1974. Throughout these 15 years, Spain experienced a rapid economic upturn and unparalleled economic growth that became known as the "Spanish Miracle." The regime combined liberalization with state involvement. Government spending cuts accompanied a more efficient tax collection mechanism. Keeping industrial goods protected, international trade was liberalized. Agriculture weakened as an industry and industrialization rose steeply.

Following the global financial crisis in 2007-2008, the Spanish economy dived into recession and entered a series of adverse macroeconomic outcomes. Compared to the EU and U.S. averages, the Spanish economy experienced a postponed, but it lingered there much longer with more than a quarter of the Spanish labor force unemployed. In recent years, Spain was in the middle of a stable economic recovery. However, the COVID-19 crisis led to the country experiencing an exceptionally deep downturn in economic activity in 2020, with the sharpest contraction amongst EU countries.

With a GDP of $1.3 trillion in 2020, Spain is the 14th largest economy in the world and the 4th largest in Europe (see Table 2.29). Some of the main economic sectors are automotive, medical, chemicals, shipbuilding, tourism, and textiles. Spain is the 13th largest recipient of foreign investment in the world. It has a large domestic market such that the Spanish market includes 47 million people and over 82 million foreign tourists in 2019. Furthermore, the country has full access to the EU market with its more than 500 million consumers and the highest buying power in the world.[7]

Spain has one of the most open and global economies in Europe. It also has a strategic economic position in regard to Latin America and North Africa. Foreign firms getting into partnerships with local companies gain excellent opportunities to enter other markets. In this environment, the Spanish firms are exceptionally internationalized: Today, Spain is home to nearly 3 million SMEs, many of which are exporters to a diverse set of countries around the globe.

[7] https://www.investinspain.org/en/why-spain/economy

Table 2.29. Key Indicators of the Spanish Economy

	2015	2016	2017	2018	2019	2020	2021
GDP in current prices (billion US$)	1196	1233	1313	1421	1393	1281	--
GDP per capita in current prices (US$)	25,742	26,523	28,170	30,365	29,554	27,056	--
Growth rate of GDP (%)	3.84	3.03	2.97	2.29	2.09	-10.82	--
Inflation rate (%)	-0.50	-0.20	1.96	1.67	0.70	-0.32	3.09
Unemployment rate (%)	22.06	19.63	17.22	15.25	14.10	15.53	14.73

Source: *World Development Indicators Database*

2.2.3.2 Foreign Trade

Spain's exports increased significantly from US$118 billion in 2000 to US$280 billion in 2008. After the global financial crisis, exports leveled off around US$300 billion.

In 2021, Spain's main export sectors were capital goods (18.6 percent of total exports), food, beverages, and tobacco (18.0 percent), chemical products (17 percent), and vehicles (12.8 percent).

Spain's main export partner is the EU, with a 61.8 percent share of total exports in 2021. After the EU, exports to the rest of Europe account for 11.8 percent of total exports, and the Americas account for 10.1 percent of Spain's total exports.

Spain's imports increased from US$155.8 billion in 2000 to US$415.5 billion in 2008. Similar to exports, imports stalled after the global financial crisis and never reached more than US$378 billion in 2009-2020.

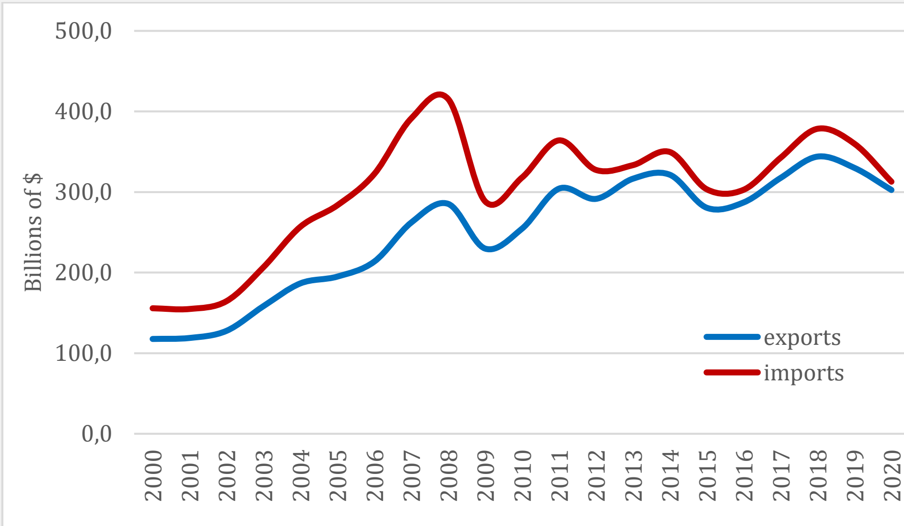
Spain's main import sectors are capital goods (20.7 percent of total imports), chemical products (18.5 percent of imports), energy (13.6 percent), and food, beverages, and tobacco (11.5 percent).

China is Spain's main importing country, accounting for 11.8 percent of total imports. To China, Spain imports from France and Germany with similar shares of 9.5 percent of total imports in 2021. Imports from the EU Union account for 49.9 percent of total imports in 2021.

Spain has run a trade deficit throughout the 2000-2020 period. The deficit widened until the global financial crisis, averaging US$69.5 billion in 2000-2007. After the crisis, the deficit decreased, and the average trade deficit was US$31 billion between 2010-2020.

Figure 2.27 shows the historical evolution of Spain's toral exports and imports. The graph shows a persistent but declining trade deficit for the country from 2000 to 2020.

Figure 2.27. Exports and Imports of Spain, 2020



Note: *Authors' elaboration.*
Data Source: *WTO, October 2021.*

2.2.3.3 SMEs and Internationalization

Spain adopts the EU's SME definition, which is contained in Annex I of Commission Regulation (EU) No. 651/2014. The regulation defines the different types of enterprises and establishes a transparent method for calculating the financial limits and the number of employees. For the consideration of micro, small or medium-sized enterprises, the requirement of the number of employees and the business volume (turnover or sales) indicated in Table 2.30 must be met.

Table 2.30. An Overview of the SME Definition of Spain

Category	Employment Size	Turnover (EUR)
Micro Enterprises	Less than 10 persons	<=2 million EUR
Small Enterprises	Less than 50 persons	<=10 million EUR
Medium Enterprises	Less than 250 persons	<=50 million EUR

Source: *The General Directorate of Industry and SMEs Web Page.*

SMEs play a fundamental role in economic growth and promoting competitiveness at the European level. More than 99 percent of enterprises in the EU-27 are SMEs, employing over 83 million people and generating more than half of the added value of the entire economic structure (EU, 2022).

In Spain, SMEs account for 99.9 percent of enterprises in June 2022, of which about 55 percent are SMEs without employees. Among SMEs with employees, MEs have the largest share at 86 percent, while SMEs have shares of 12 and 2 percent, respectively (Table 2.31). In terms of economic size, Spanish SMEs account for almost 57 percent of value added and 69 percent of total business employment. (Figure 2.28).

Table 2.31. Spanish Businesses by Size, 2022

By Size	Number of Businesses	%
SMEs (0-249)	2,935,626	99.9
SMEs without Employees	1,612,736	54.9
SMEs with Employees	1,322,890	46.1
Micro (1-9)	1,132,153	85.6
Small (10-49)	164,093	12.4
Medium (50-249)	26,644	2.0
Large (250+)	5,101	0.01
TOTAL	2,940,727	100.0

Source: *The General Directorate of Industry and SMEs Web Page.*

Figure 2.28. Contribution of Spanish SMEs to the Economy

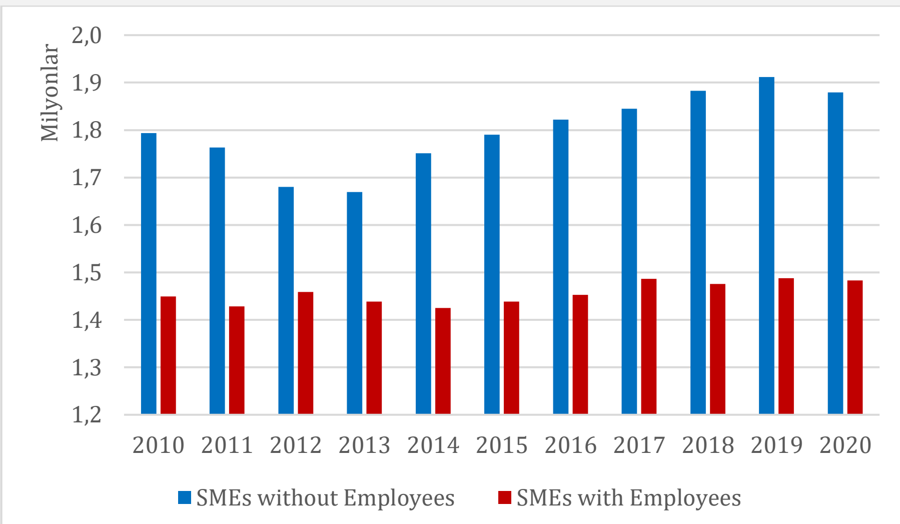
Source: *OECD SME and Entrepreneurship Outlook, 2021.*

To understand the economic development of Spain in recent years and the challenges it has faced, it is necessary to understand the challenges faced by SMEs. The global economic and financial crisis, which has hit Spain particularly hard, has had a clear impact on Spanish SMEs. It was the result of a series of far-reaching structural weaknesses (including low productivity, small size, limited export capacity, low investment in innovation, low digitalization, lower capacity to create stable jobs).

The impact of the unfavorable situation and credit constraints made a reorientation of the competitive and growth model even more urgent, if at all possible. In recent years, public administrations have taken various measures to promote economic recovery and job creation. In the SME sector, these reforms deepened and accelerated compliance with the SBA, a recommendation that summarizes the strategic principles and policy lines of action to promote the creation, development and growth of SMEs in the EU (see Box 2.7 for more information).

For about two decades, Spanish SMEs have been undergoing an unprecedented process of globalization and digitalization. However, their numbers declined after the devastating effects of the global financial crisis and the prolonged economic downturn that followed. After 2014, their number steadily increased until the COVİD-19 pandemic in 2020. In fact, from 2013 to 2019, the number of SMEs increased from 3.1 million to 3.4 million (Figure 2.29).

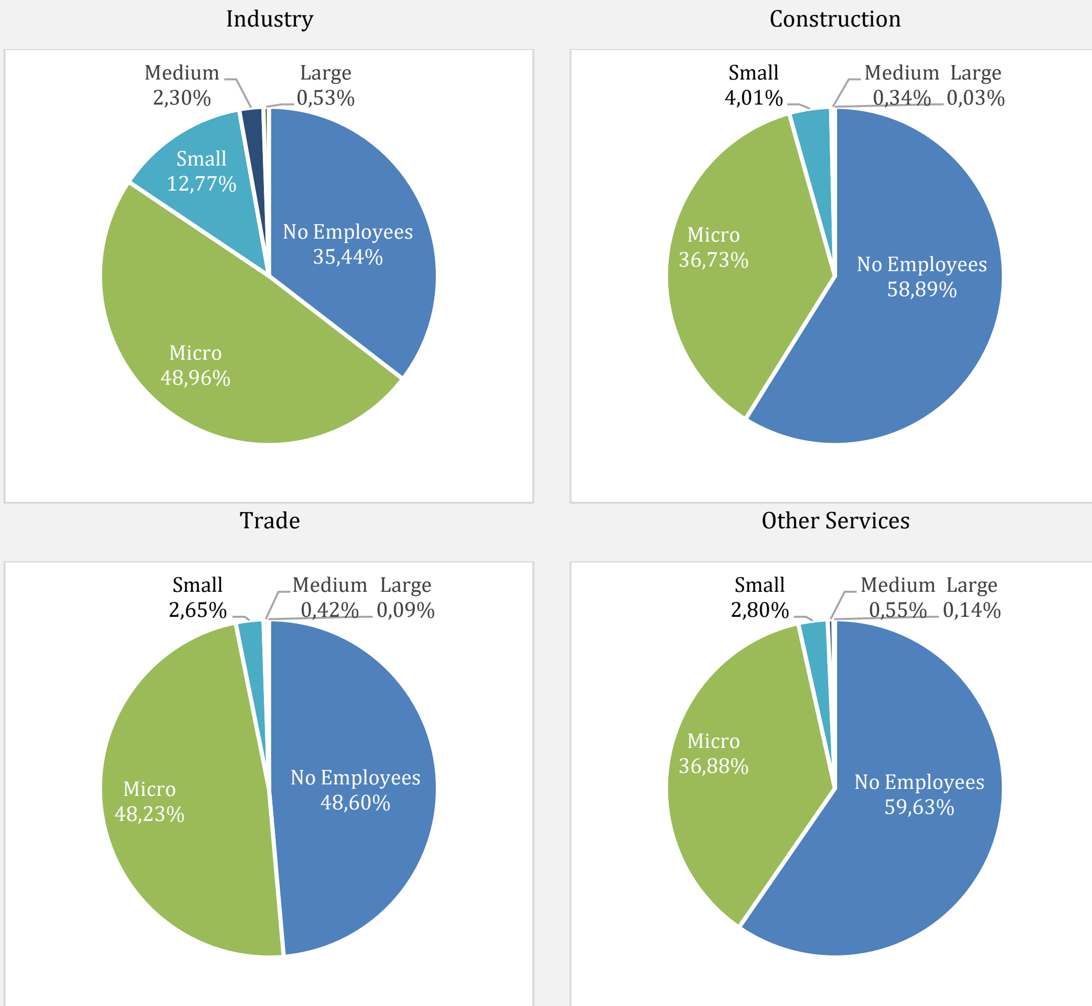
Figure 2.29. Evolution of Spanish SMEs, 2010-2020



Note: *Authors' elaboration.*
Data Source: *SME Portal, The General Directorate of Industry and SMEs.*

In terms of sectoral distribution, it can be observed how the size of Spanish enterprises varies according to the economic sector to which they belong. Figure 2.30 illustrates that about 49 percent of industrial enterprises are MEs. However, construction and other services account for the highest number of enterprises (with 58.9 and 59.6 percent, respectively) in the group of enterprises without employees. In the trade sector, 48.6 percent are enterprises without employees, and more than 48 percent have between 1 and 9 employees. 12.8 percent of enterprises in the industrial sector are small enterprises (10 to 49 employees), a much higher percentage than the share of small enterprises in the total number of enterprises (3.5 percent).

Figure 2.30. Sectoral Composition of Spanish Businesses by Size, 2020



Note: *Authors' elaboration.*
Data Source: *SME Portal, The General Directorate of Industry and SMEs.*

Box 2.7. Internationalization Performance of Spanish SMEs under SBA

The SBA, adopted in June 2008, served as a framework for policy development for SMEs and is based on a set of voluntary policy recommendations focused on the following ten principles: Entrepreneurship; Second Chance; Think Small First; Good Governance; State Aid and Public Procurement; Access to Finance; Single Market; Skills and Innovation; Environment; and Internationalization.

The overall goal of the SBA is to reduce administrative burdens, promote entrepreneurship, improve access to finance and markets, and generally improve conditions for SME development and growth.

As a voluntary initiative, the SBA has successfully launched meaningful and coherent policy actions at the Member State level based on a common framework.

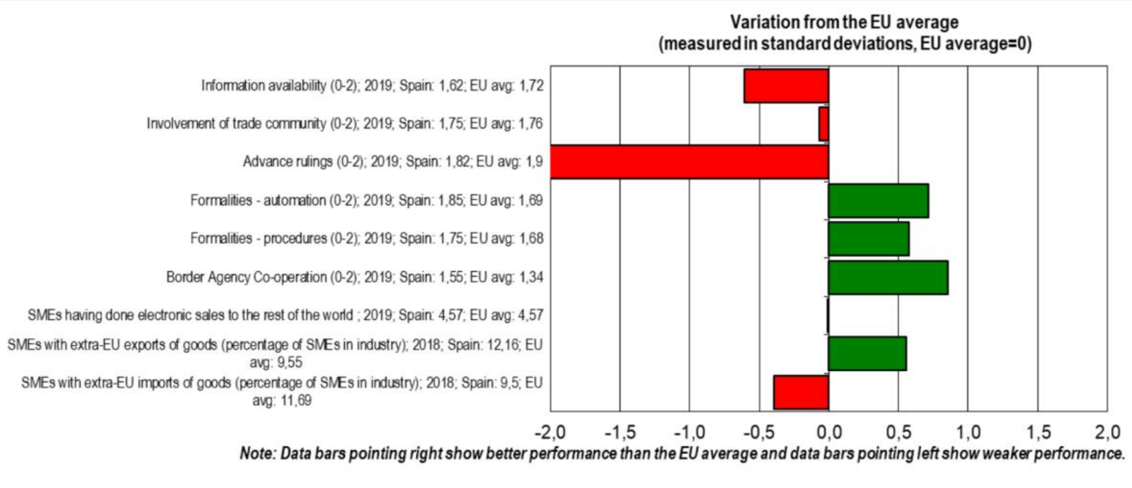
Its motto *"Think small first"* sets its main objective: improving the environment in favor of SMEs, simplifying the regulatory framework and removing all obstacles to their development.

The SBA Fact Sheet of Spain in terms of internationalization (shown in the graph below) shows that in the overall Spain continues to rank around the EU average in terms of internationalization in 2022.

Spain still has one of the lowest scores in the EU for advance rulings. However, Spain is among the top performers in the EU in the automation of formalities, which focuses mainly on electronic data interchange, automated border procedures and the use of risk management. Similarly, Spain is above average in procedural formalities. This relates primarily to the streamlining of border controls, the one-stop store, post-clearance audits and authorized economic operators.

Taken together, these improvements played an important role in Spain's improved performance in global markets. The latest available data shows that the number of companies that regularly export increased to 51,768 in 2018 (2.4 percent more than in 2017), mainly due to the Strategy for the Internationalization of the Spanish Economy 2017-2027.

There is targeted financial support for internationalization and contact points that provide information on foreign markets. In addition, the newly published *'Strategic Framework for SME Policy 2030'* provides for the adoption of measures to improve the information available on international markets and business opportunities, improve specialized training activities to help SMEs grow in new markets, and create new financial instruments to meet the needs of SMEs.



Source: https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en#sba-fact-sheets

Exports of SMEs

In recent decades, the Spanish economy has experienced an unprecedented process of internationalization, reflecting changes in the corporate structure. Nagy (2013) claims that at the heart of Spanish success has been an innovative business model and a highly original production and distribution process. Here, innovation refers not only to the cutting-edge production technology, but also to the novel management practices, many of which attested to be highly innovative (Santiso, 2007).

In this context, recent Spanish development has been characterized by two main features: a convoluted past with a stagnant, controlled and isolated economy, and an excellent entry into the 21st century with rapid structural reforms (Quintana Navío, 2007). The internationalization of Spanish companies in Latin America began in the 1990s and expanded to the United States and the markets of Europe and the Far East in the 2000s. Over time, "multilatinas" evolved into MNCs (Santiso, 2007). It should be noted that the timing of these developments was fortunate in that they coincided with a global economic boom, loose money, and a thriving and robust Spanish economy.

Since the middle of the last decade, against the backdrop of unprecedented globalization and a global economic and financial crisis, Spain has experienced a deep recession caused by the collapse of the construction sector, the decline in domestic demand and the explosion of the unemployment rate to over 20 percent. In this discouraging scenario, the foreign sector became the starting engine for the Spanish economy to get out of the crisis. It can be said that Spanish companies in this phase no longer consider internationalization as a growth option, but as an outlet to survive.

The role of Spanish SMEs in this journey has been crucial. The dynamism of Spanish exports in recent years is undoubtedly a reflection of the internationalization of the country's production structure. The intense and persistent weakness of domestic demand during the crisis has allowed the conquest of new markets within a framework of moderate labor and financial costs, which has strengthened the competitiveness of Spanish SMEs.

In general, SMEs have contributed positively to the growth of total exports since the recovery of world trade starting in 2009, although this contribution has been less significant than that of large firms. This increase in SMEs' contribution to export growth is mainly based on the extensive margin (number of exporting firms), while their contribution to the intensive margin (export volume per unit) is small.

The geographic pattern of SMEs is similar to that of total Spanish exports, although there is a greater concentration in frontier markets such as Portugal and Morocco or in markets with historical and cultural ties such as Latin America. In these markets, SMEs encounter fewer cultural and logistical barriers, making it easier for them to access these markets despite advances in communications and transportation (MITT, 2019).

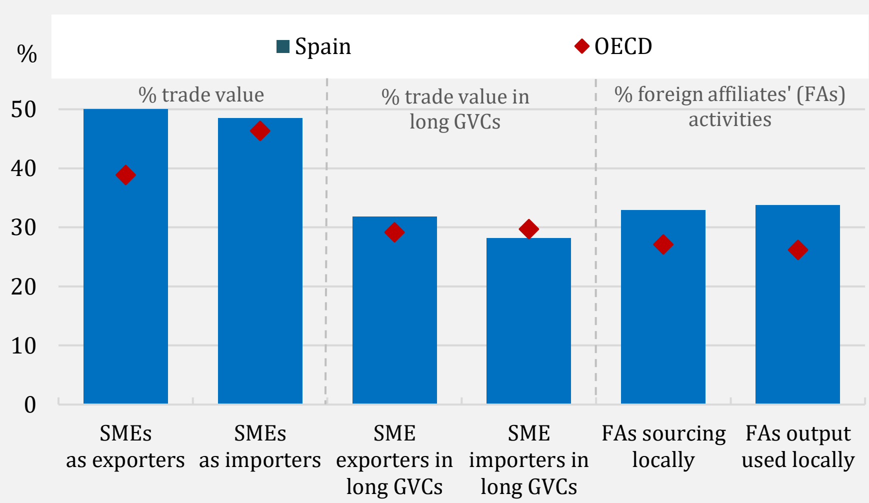
As for the survival of SMEs in exports, it should be noted that it is lower than that of large companies and positively correlated with the size of the company. In recent years, the base of regular exporters (they export more than four years in a row) has gradually increased.

According to a survey conducted by ICEX[8], 39 percent of Spanish SMEs planned to sell their products and services outside Spain for the first time in 2021. The main reasons cited for targeting international markets are opportunities in specific markets (57 percent) and the impact of the COVID-19 on their business (36 percent).

Figure 2.31 shows that about half of Spain's exports and imports are generated by SMEs. While this is close to the OECD average of 47 percent for imports, it is much higher than the same average for exports (39 percent) in the OECD. In other words, Spanish SMEs show the same behavior as many OECD countries for imports, while they perform better than OECD countries for exports. This can be seen as evidence of the successful internationalization of Spanish SMEs in recent years.

Figure 2.31 also shows the shares of SME exporters and importers in long GVCs, as well as the share of FAs in backward and forward linkages. Accordingly, exporting Spanish SMEs are particularly vulnerable to disruptions in GVCs, as they have higher average scores on each of these metrics (except for SME importers in long GVCs). SME participation in long GVCs was around the OECD average. They could face difficulties if FDI is permanently affected, given the presence of FAs locally.

Figure 2.31. International Trade and GVC Exposure of Spanish SMEs



Source: *OECD SME and Entrepreneurship Outlook, 2021.*

[8] https://www.icex.es/icex/es/navegacion- principal/que-es-icex/sala-de-prensa/sala- prensa/NEW2021870189.html

2.2.3.4 SME Internationalization Incentives and Initiatives

Institutional Framework

In Spain, the importance of SMEs is clearly reflected in the *Agenda for Change*, which aims to guide government action in line with the reforms envisaged in *the United Nations 2030 Agenda for Sustainable Development*, and includes such important measures as the promotion of the Spanish innovation ecosystem and support for SMEs, as well as the inclusion of the fight against the gender gap, the demographic challenge, the promotion of SMEs or startups, and innovative public procurement in tenders for public competitions (MITT, 2019).

The **"Strategic Framework for SMEs"** was created to strengthen what has been achieved so far and pave the way for new proposals that consolidate the position of Spanish SMEs in a changing, global, digitalized, innovative and sustainable environment in such a way that they know how to closely monitor the markets of reality and adapt to new challenges.

This strategic framework was born as a tool at the service of SMEs. It is the result of a long process of analysis and reflection in which the main economic actors and the companies themselves have participated. Its aim is to identify the areas of action or levers that will improve its competitiveness and growth opportunities.

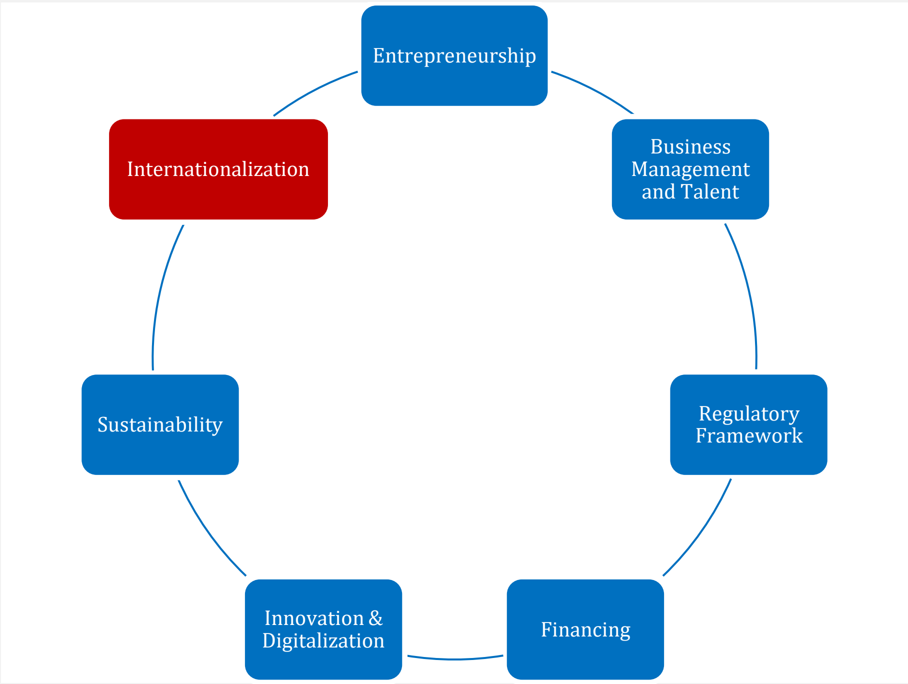
Spain's current SME strategy is based on two pillars: (i) the General State Administration's policy on SMEs; (ii) the European framework for SME policy: The Small Business Act Recommendation and the European Action Program for SMEs.

The objective of defining a strategic framework for SMEs is to establish a set of measures to improve the competitiveness of enterprises and contribute to the creation of an appropriate climate to promote their growth. To this end, the framework establishes a series of action areas or levers.

The levers identified are the result of reflection and analysis based on the following elements: (i) the Small Business Act, together with its Action Program; (ii) the benchmarking of actions carried out in Spain and in other European countries; (iii) the conclusions of a series of working groups with experts; (iv) observations and comments of the members of the Council of State for SMEs.

As a result of this research, seven levers were identified (see Figure 2.32), which constitute the action areas that are the pillars for the formulation and implementation of SME policy. The diagnosis of the situation of each lever has made it possible to identify the areas in which action is needed and for the evaluation of which the main factors (variables, challenges, obstacles, etc.) that define each of these areas have been studied. From the analysis of each lever, a series of lines of action have been derived, which concern the development of all SMEs and do not focus on a specific sector, and which are proposed as recommendations for the Spanish public administrations.

Figure 2.32. Strategic Action Levers for SMEs in Spain



Source: *Authors' elaboration of the information in MITT (2019)*

The governance system is at the core of the development of the SME Strategic Framework, and its main objective is to support the monitoring and subsequent implementation of the action lines (AL) it contains.

In particular, its specific objectives respond to the need to:

- Create the necessary tools for a complete and comprehensive monitoring of the development of the Strategic Framework in a realistic, timely and truthful manner, respecting the principles of value for money and opportunity.
- Identify possible deviations or risk situations that could affect the fulfillment of the established objectives.

The governance system is based on two pillars:

- Organizational Architecture. Definition of the organic and functional structure, responsible parties and relationships required to manage the strategic framework.
- Monitoring model. Definition of indicators for monitoring the implementation of the strategic framework.

As an expression of public policy in support of SMEs, Spanish public administrations have requested aid (subsidies, loans, etc.) totaling €9,435,216,788.11 in 2018, distributed as reported in Table 2.32:

Table 2.32. SME Support in Spain, 2018

Administration Type	Amount (in millions of EUR)	%
Autonomous Communities (CCAA)	7,792	82.6
Central	1,407	14.9
Local	235	2.5
TOTAL	9,433	100.0

Source: *MITT (2019)*

On the other hand, in 2018, the Council of State for SMEs has compiled a series of measures that Spanish public administrations direct to SMEs, including grants and subsidies (whose budget has already been indicated above):

- Measures of the General State Administration: 152 measures
- CCAA measures: 305 measures.
- TOTAL: 457 measures.

For the implementation of the 152 identified measures in 2019 (assuming their continuity), the budget extended from 2018 to 2019 for capital transfers to private companies and the granting of loans outside the public sector, estimated to be included in measures of the Strategic Framework for SMEs, totals €2,751,383,880.

The estimated distribution among the individual levers of the Strategic Framework, taking into account the nature of the identified programs, is as in Table 2.33.

Table 2.33. Planned SME Support in Spain, 2019 (extended from 2018)

Administration Type	Amount (in millions of EUR)	%
Entrepreneurship	7	0.2
Business Management and Talent	7	0.2
Regulatory Framework	183	6.6
Financing	1,510	54.9
Innovation and Digitization	730	26.5
Sustainability	18	0.7
Internationalization	298	10.9
TOTAL	2,753	100.0

Source: *MITT (2019)*

Core Institution: The State Council for Small and Medium Enterprises

SME policy in Spain has been articulated through numerous actions by the General State Administration, the CCAA and local authorities.

Since 2005, first through the Observatory of Small and Medium Enterprises and later, since 2013, through the State Council for SMEs, Spanish public administrations have had a basic tool for defining and developing policies in the field of SMEs.

The State Council for Small and Medium Enterprises is subordinated to the Ministry of Industry, Trade and Tourism through the General Secretariat for Industry and Small and Medium Enterprises and was created by Royal Decree 962/2013, of December 5. The Council is defined as a collegial body with advisory and cooperative functions in matters concerning SMEs, in order to promote and facilitate their creation, growth and development of competitive advantages.

THE STATE COUNCIL OF SMEs

- Description: Collegiate body of a consultative, advisory and collaborative nature in matters affecting SMEs to favor and facilitate their creation, growth and development of competitive advantages.
- Functions. It monitors, proposes action measures, updates the information on the measures and forms the necessary working groups for the development of the Strategy.
- Members. It is chaired by the Minister of Industry, Trade and Tourism and has two vice presidents; representatives of the ministerial departments; of other entities of the General State Administration (AGE); of CCAA and cities, as well as representatives of the Local Administration, state and inter-sectoral business and trade union organizations representing SMEs, social economy business confederations and the Chamber of Spain.

GROUPS OF THE STATE COUNCIL OF SMEs

- Description: These are formed based on the levers and lines of action of interest to the State Council. It is supported by the SME Strategy Monitoring Office. In turn, it is advised by the SME Advisory Council.
- Functions:
    - Periodically report to the State Council of SMEs on the progress of the strategic framework technical.
    - Transfer possible risks that could impact the correct development of the Framework Strategic.
    - Propose to the State Council actions to be developed within the Strategic Framework. co.
- Members:
  - Council groups. Up to a maximum of 15 members per group.

SECTORAL CONFERENCE OF INDUSTRY AND SMEs

- Description: This was an already operational body in which the CCAA and the Ministry of Industry, Commerce and Tourism participate through the General Secretariat of Industry and SMEs, and which has the purpose of articulating and resolving, Starting from the principle of cooperation, those issues of common interest in the field of industry and SMEs.
- Functions:
  - Establish specific plans for cooperation between CCAA in the field of industry and SMEs, seeking to eliminate duplication and achieve better efficiency in public services.
  - Periodically report to the State Council for SMEs on the progress of the measures that are being developed in its field of competence.
  - Propose to the State Council actions to be developed within the Strategic Framework. co.
- Members:
  - Ministry of Industry, Commerce and Tourism and CCAA (Ministries with competences in Industry and SMEs).

MONITORING OFFICE

- Description: body responsible for periodically monitoring the status and evolution of the Strategic Framework.
- Functions:
  - Compile information on the results in the field of each line of action.
  - Detect risks or problems in the development of the Framework and transfer them later to the working groups.
  - Propose the reorientation/redesign of actions of the Strategic Framework.
  - Transfer possible risks that could impact the correct development of the Framework Strategic.
- Members: Sub-directorate General for Support to SMEs

SME ADVISORY BOARD

- Description: Body that will collect another opinion from the business world.
- Functions:
  - Formulate recommendations on the problems that are found in the task company journal.
  - Inform about specific risks or problems that are found.
  - Transfer possible solutions for study by the working groups / Advice.
- Members: Large companies, SMEs and other economic agents with responsibilities regarding SMEs.

Peripheral Institutions

The following is a list of institutions that are involved in the

- **State Secretary of Commerce** is the coordinating legal body under MITT.
- **COFIDES** contributes with criteria of profitability and under the notion of sustainability to the internationalization of the Spanish economy, as well as promote economic development by financing companies with private investment projects or supporting the management of development instruments.
- **CESCE** is the Spanish Export Credit Agency (ECA) that manages export credit insurance, and the coverage of the medium- and long-term risks of consumers, both on behalf of the State.
- **ICEX** Spain Export and Investment is a public business entity whose main purpose is to promote the internationalization of the Spanish economy and business and improve its competitiveness, as well as attracting and promoting foreign investment in Spain.
- **ICO** is a state-owned bank, attached to the Ministry of Economic Affairs and Competitiveness via the State Secretariat for Economy and Enterprise Support. From a legal point of view, it is a credit institution, and is treated as a State Finance Agency, with its own legal status, assets and treasury, as well as an independent management to carry out its activities.
- **SEGITTUR** is a state operator contributing to the development, modernization and maintenance of a leading tourist industry through technological innovation. It generates and manages the technology, expertise, and innovation necessary to improve competitiveness, quality and sustainability in the environmental, economic and social aspects of tourism. It disseminates, promotes and implements in tourism markets both at home and abroad the best practices, know-how and technological innovation that have made Spain a world reference in the sphere of international tourism.
- **CDTI** is a public business entity, answering to the Ministry of Science and Innovation, which fosters the technological development and innovation of Spanish companies. It is the entity that channels the funding and support applications for national and international R&D projects of Spanish companies.
- The **Spanish Chamber of Commerce** coordinates the network of Chambers of Commerce in Spain and acts as its representative before national and international governing bodies, as well as providing advisory services to the Spanish government. Its mission is to promote and defend the general interests of trade, industry, services and maritime navigation.
- **CCAA**s are the autonomous communities (regional governments) of Spain. According to the Spanish constitutional system, the organization of institutions and the system of self-government of each community corresponds to the autonomous community itself. Its basic political institutions are planned and regulated in the statutes of autonomy. These initial forecasts had subsequently been developed through the adoption by the various Legislative assemblies of the corresponding organizational laws.

Major Support Programs

Through the State Council of SMEs, a number of AL were put in place to meet the objectives of the internationalization lever of the Strategic Framework of SMEs:

AL1. Increase information on the resources and services available to help internationalization

AL2. Promote comprehensive support to the company in its internationalization process

AL3. Increase the base of companies that export regularly

AL4. Ensure financial support for internationalization operations

AL5. Promote foreign investment in Spain

AL6. Facilitate the digitization of SMEs as a dynamic element of their export activity

AL7. Expand and strengthen the presence of Economic and Commercial Offices in the foreign network

The following is a summary of different programs that are in place, organized by the executing institutions:

STATE SECRETARY OF COMMERCE (AL4)

FIEM SME Line. In June 2020, the Council of Ministers approved an extension of an additional EUR 100 million to the existing 50 million of the FIEM SME line. This line tries to provide liquidity to export and investment projects that can be carried out by Spanish companies. With the particularity of having flexible repayment and amortization terms. Each SME can request up to a maximum of EUR 10 million per operation. It is a fast procedure, which is resolved in a maximum of 2 months, with which support is reinforced for SMEs that wish to internationalize almost any country.

COFIDES (AL4)

FONPYME. This fund allows direct temporary and minority investments in the share capital of Spanish companies for their internationalization or of companies based abroad. Through the FONPYME it is possible to make investments in the equity of the above-mentioned companies and in all equity instruments.

Temporary and direct minority investments may also be made in capital expansion vehicles or funds with public support that already exist or are being set up, or in private investment funds that promote the internationalization of companies or the Spanish economy.

CESCE (AL4)

COVID-19 Circulating Credit Coverage Line. Line with a financing capacity of EUR 2,000 million aimed at SMEs and larger companies, provided they are unlisted entities, in which the following circumstances occur:

- That they are internationalized companies or in the process of internationalization.
- That the company faces a liquidity problem or a lack of access to financing as a result of COVID-19.

ICEX (AL1) (AL3)

Invest in Spain. It focuses on attracting foreign SMEs to establish themselves in the Spanish market, which can indirectly bring benefits to companies that are already incorporated into the Spanish business fabric.

ICEX IMPACT+ Program: new markets, new inclusive and sustainable business models to meet the SDGs.

ICEX Next is the ICEX program for Spanish SMEs that want to grow internationally, helping them in all phases of their project.

ICEX Sourcing. It offers information on business opportunities in international markets with the aim of promoting the presence and activity of companies from our country in them.

ICEX Spain Tech Center. Platform for Spanish technology-based companies in Silicon Valley with the aim of supporting them in their process of internationalization and landing in the North American market.

ICEX TARGET USA. Program that supports the establishment of subsidiaries of Spanish companies in the US market.

DigitalxBorder. ICEX and EOI Digital Immersion Program for SMEs.

ICO (AL4)

ICO International Channel. Financing for freelancers and companies to support their internationalization process. Regarding the other financing mentioned, this allows you to apply for loans at local banks or international entities that are based in the countries where the investment projects or export activity are carried out.

SEGITTUR (AL2) (AL3)

Lines of Action in Matters of Internationalization. Support program for the internationalization of tourism companies promoted by the Secretary of State through SEGITTUR in collaboration with ICEX and European initiatives such as ELAN Networks. The recipients of this program have been fundamentally SMEs with technology-based products and services with an interest in different markets, especially Latin America.

CDTI (AL2)

CDTI promotes Spanish participation in the R&D Framework Program of the EU, in the European Space Agency (ESA) or in international multilateral initiatives for technological cooperation such as Eureka and Iberoeka.

Along with the above, it develops Bilateral Technology Cooperation Programs with third countries and provides on- site support to innovative Spanish companies through its Foreign Network of technology representatives.

SPANISH CHAMBER OF SPAIN (AL1) (AL2) (AL3)

International Promotion Plan Program (PIP) 2014-2020. The program aims to help increase the Spanish export base and promote the consolidation of a greater number of companies that export regularly, promote the culture of internationalization, strengthen the training of human capital in international affairs to improve the competitiveness of companies abroad, provide companies with information to better develop their internationalization processes and contribute to the diversification of export markets. Priority is given to actions aimed at markets that are difficult to access and for members in countries with strategic sectoral policies.

XPANDE Program to Support the International Expansion of SMEs 2014-2020. Its goal is to advise and assist companies entering foreign markets to achieve a sustainable competitive position. The XPANDE program offers a personalized consulting service based on competitive intelligence techniques developed by chamber consultants.

XPANDE Digital Program 2014-2020. This program applies a methodology for companies entering international digital marketing, depending on the market they are targeting and the product/service offered, and also provides them with the necessary tools to strengthen their position in the target market.

At regional (CCAA) level, the following measures stand out to promote the internationalization of SMEs:

ARAGON (AL1) (AL2) (AL3)

ARAGON Foreign (AREX). Organization -public company- to promote the internationalization of the Aragonese economy, to support the foreign promotion of Aragonese companies and to attract foreign investment in the region.

CANTABRIA. SODERCAN (AL1) (AL2) (AL3)

Globalize Program. Call for aid from the program to support internationalization in trade missions.

CASTILE-LA MANCHA (AL1) (AL2)

Plan Ahead 2020-2023. There are four levers for business development that, across 19 lines, are expected to have a decisive impact on the challenges of the regional economy to promote the improvement of the economic fabric of Castilla-La Mancha and its citizens.

CASTILE AND LEON (AL4)

Financial Support for Internationalization. The Junta de Castilla y León facilitates an agreement between Iberaval and Reale Seguros to anticipate the subsidies for internationalization granted by the Institute of Business Competitiveness (ICE) of Castilla y León and to provide working capital to companies that must face the consequences of the current crisis sanitary.

These funds serve to subsidize guaranteed loans for the advance payment of internationalization subsidies granted by ICE and already justified by the companies. Secondly, discounts of up to EUR 2,500 are contemplated for those guaranteed loans requested by companies with liquidity needs that must face the economic consequences of the pandemic.

CATALONIA (AL1) (AL2)

Barcelona & Catalonia Startup Hub Platform. Virtual tool that identifies 1,500 Catalan startups with high growth potential. This hub was born with the aim of promoting the international projection of the Catalan startup ecosystem and contributing to attracting investment by these companies.

Network of Foreign Trade and Investment Offices. The most requested services by Catalan companies are the search for marketing channels (distributors, partners or clients in the country of destination specialized in their sector), having a physical space in the office to be able to work directly abroad and participation in business missions. In addition, the Offices also carry out market studies, prepare contact agendas and help companies in all aspects related to productive or commercial implementation in the country of destination. They also accompany companies to access international tenders and, in the field of innovation, help them sell their technology and find partners for international R&D projects. They are also responsible for capturing new foreign investment projects in Catalonia.

MADRID CITY (AL1) (AL2)

Invest in Madrid. Collaboration agreement between the Community of Madrid, through the Ministry of Economy, Employment and Finance and the Official Chamber of Commerce, Industry and Services of Madrid to promote the attraction of foreign investment to the Community of Madrid. 1 million Euros.

Internationalization Single Window. Comprehensive service of attention, support and promotion of the company in its internationalization process. From the preparation of the company to export, the definition and access to the appropriate markets, knowledge of export operations, to accompanying the company abroad. €400,000.

EXTREMADURA (AL2)

Aid for the Internationalization of economic Activity in Extremadura. Aid line for the internationalization of economic activity; aimed at facilitating the access of Extremadura companies of goods and services to foreign markets and encouraging their participation in foreign trade events, as well as supporting the promotion and marketing activities that they undertake in these markets. Recruitment of technicians in foreign trade. Support of the technical-commercial structure of the marketing companies.

BALEARIC ISLANDS (AL6)

Internationalization Support Campaign. The General Directorate of Innovation and the Bit Foundation launch a campaign to support the internationalization of Balearic companies. Through 5 state and international networks, commercial exchanges and technological collaborations between Balearic and foreign companies are promoted.

LA RIOJA (AL1) (AL2) (AL3)

La Rioja Program Abroad. Program designed to provide comprehensive support to Riojan companies that want to invest in markets with high business potential and strategic value for them, but difficult to access individually. ADER accompanies each company for several months (according to the call) in its internationalization process, not as a one-off action but as an investment that allows it to discover, initiate and consolidate that target market.

BASQUE COUNTRY (AL1) (AL2) (AL3)

Elkartzen 2025. Promotion of internationalization in cooperation. Aimed at Basque sectoral associations. Non-refundable subsidy for the expenses of promotional activities.

Global Lehian. Grants for the promotion of individual and cooperative international activity. Non-refundable subsidy for promotion expenses, depending on the maturity of the company: initiation –consolidation- implementation.

Pilot. Contribute to financing pilot public investment projects abroad. Non-refundable subsidy for the start-up costs of the project.

Sakondu. Improvement of the company's competitive position in markets where it is comparatively weak. Aimed at highly internationalized SMEs. Non-refundable subsidy for expenses to improve the competitive situation.

2.2.3.5 Conclusion of Review

Challenges

Despite the increasing participation of Spanish SMEs in global markets, the reality is that smaller companies face a number of important internal and external obstacles in their internationalization process, which not all of them are able to overcome.

The internal obstacles are the following:

- The higher relative price of SMEs' products and services in the domestic market, which makes them less competitive compared to larger companies.
- SMEs with a higher debt ratio have more problems bearing the costs of entering foreign markets, limiting their ability to export.
- SMEs with a higher proportion of temporary contracts have lower levels of efficiency and productivity, which negatively affects their ability to export.
- SMEs have difficulty finding a management team with a high level of training in technology and foreign markets. Also, the difficulty of attracting and retaining highly qualified individuals with experience in foreign markets who know how to properly shape the company's internationalization strategy is a major challenge for smaller companies. This obstacle is particularly important for MEs.

The external barriers are as follows:

- Compared to large enterprises, SMEs and especially MEs have greater difficulty in accessing external sources of financing, not only because it is more expensive (in terms of guarantees, warranties, access to information), but also because large enterprises have better access to more diverse sources of financing.
- There is a lack of subsidies, bureaucratic difficulties, lack of information on foreign markets, dealing with trade barriers (regulatory framework in third markets, customs costs, etc.) and the greatest difficulty in adapting to cultural differences (mainly language).

Lessons Learnt

-From a Governmental Perspective

The Spanish government's current programs to support the internationalization of SMEs can be commended for being part of a broader growth and development strategy, with the intention of coordinating different parts of the government to achieve a common goal.

In this context, the Strategic Framework for SMEs[9] is an instrument at the service of SMEs that sets the policy framework for action by Spanish public administrations in the field of SMEs in the long term. It consists of a set of recommendations divided into seven levers or areas of action

[9] https://industria.gob.es/en-us/Servicios/Paginas/marco-estrategico-politica-PYME.aspx

that are considered strategic in any policy that focuses on SMEs. All this in coordination with the different plans and strategies, either sectoral or more cross-cutting, both from the general state administration and from the CCAA and local authorities.

The framework is divided into three clearly delineated parts:

- Description of SMEs in Spain and Europe, their contribution to the Spanish and European economies, and Spanish and EU policies in this area.
- Conceptual framework and diagnosis of the seven identified levers: entrepreneurship, governance and talent, regulatory framework, financing, innovation and digitalization, sustainability and internationalization. These levers are in turn divided into a series of AL as recommendations, whose fundamental characteristic is their horizontality, so that they concern the development of all SMEs in their entirety and do not focus on a specific sector.
- Governance model, that is, the structure of actors for the implementation and monitoring of the actions contained in the Strategic Framework, headed by the Minister of Industry, Trade and Tourism. The institutional architecture is based on the State Council for SMEs, a government advisory body for SMEs, involving public administrations and social partners.

Other countries that are in the process of developing or redesigning their SME internationalization programs can learn a lot from the design and implementation of this framework created in Spain.

-From a Firm Level Perspective

The Spanish experience of SME internationalization shows that engaging in global markets requires a certain level of professionalism in management, which is a necessary but not sufficient condition. For example, the analysis conducted by Fernández and Nieto (2006; 2007) shows that there is a negative relationship between family ownership and internationalization in Spain. Few family-owned SMEs export, and when they do, it is only on a moderate scale. Solutions offered include: (i) involving the new generation or external talent in the management, as they are not as prohibitively risk averse as the founders of the business, and (ii) introducing new resources (human resources, capital, management knowledge) into the business.

There is a direct correlation between leadership ability, foreign language skills, college degrees, previous stays abroad and the outcome of internationalization. This means that human resources are an important factor to consider in the internationalization of SMEs.

The decline of Spanish exporting companies during the global financial crisis and the COVID-19 pandemic has shown that the economic crisis brings serious obstacles to internationalization. The resilience that is urgently needed in these circumstances must be built by SMEs into their own business systems.

Needs for Further Improvement

The average size of Spanish companies is very small, which is a hindrance to their export capacity. Additionally, due in part to the relatively low level of digital skills, Spanish SMEs are not taking sufficient advantage of the potential of cross-border internet sales. The new internet paradigm and the framework that is creating the Digital Single Market (one of the Commission's priorities for the 2014-2019 period), offer a set of useful tools to help SMEs increase their export capacity.

Until October of 2009 16,000 different types of support programs were set up in Spain from which several thousand were still running. As discussed in Yserte and Pindado (2010), the important change of support instruments on the regional level is that they respond to the needs and challenges of the SMEs as it is done by the CCAA's of Spain. However, the Spanish system of supporting SMEs functions within the European frameworks as well. Evidently the system -even with its best intentions- is not very successful in preventing a "*support jungle*". Therefore, the best practices are worth looking at more closely, especially the ones which are in accordance with the above-mentioned challenges.

2.3 Survey

2.3.1 Methodology

To obtain information on the barriers to SME internalization, the measures to overcome these barriers, and their impact, we conducted a survey of OIC member states. Since the measures are designed by government institutions and used by firms, we prepared different questionnaires for firms and government institutions. In this way, we can find out how the firms and institutions perceive the obstacles and how the measures affect the companies' exports.[10]

The questionnaire for the firms consists of different sections. The first section is designed to collect general information about the firm such as the number of employees, age, shareholder structure, main product manufactured, and export experience. For the non-exporting firms, the questionnaire also asks for the reason for non-export. The second part of the questionnaire attempts to collect information on the perception of export barriers. We divide the barriers into two categories: external barriers and internal barriers. Internal barriers are those related to a firm's own dynamics, such as lack of information, lack of sufficient human resources, difficulty in accessing finance, difficulty in maintaining the product quality required for export, and difficulty in selling in international markets. External barriers, on the other hand, include those resulting from external factors, such as lack of government support, difficulties arising from the attitude of foreign governments, and tariffs.

Since public institutions are responsible for designing and implementing policies to internalize SMEs, in preparing the questionnaire we sought to identify policies implemented in OIC member countries and to understand what barriers those policies are designed to address. Similar to the firm's questionnaire, the public institution's questionnaire[11] consists of different sections. The first section collects information such as the objective, target audience, and the publicizing channel of the programs implemented, as well as information on the monitoring and evaluation of these programs. Since access to finance is of great importance for internationalization, in this section we also ask about the available instruments of SME financing in each country. The second part of the questionnaire contains the same questions on internal and external barriers as the questionnaire for firms. This allows us to determine the extent to which obstacles differ between firms and public institutions. (See Annex I at the end of the report for the surveys).

After the questionnaires were created, they were tested in a pilot study with a small Turkish sample, revised based on the responses, and then translated into Arabic, English, and French. The survey was then published online in four languages: Arabic, English, French, and Turkish. We sent emails to 3833 companies and 1069 government institutions inviting them to

[10] While designing the surveys, we utilize the surveys in Nguyen (2020) and ADB (2015).

[11] The questionnaire of public institutions is not only sent to the public institutions but also to the NGOs (such as Trade Chambers) and international institutions (such as WB), since the policies could also be designed and implemented by them.

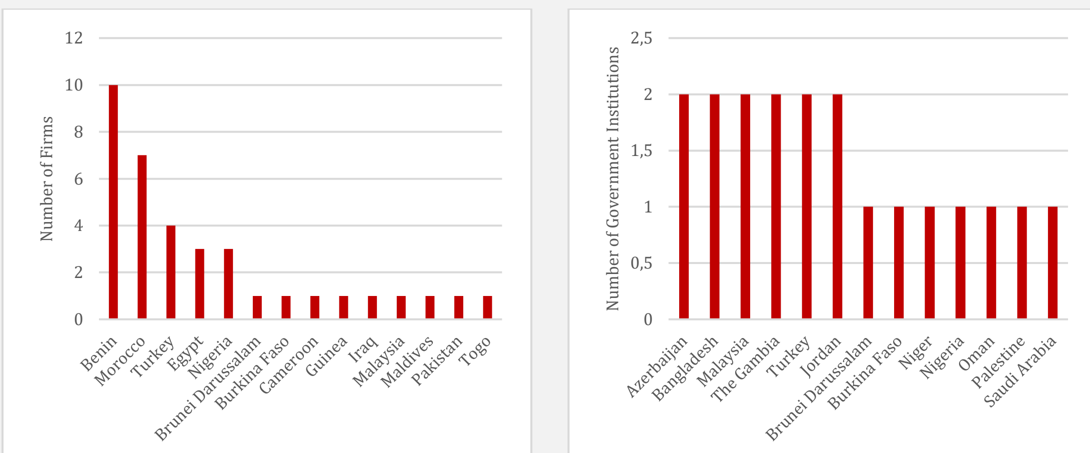
participate in the survey. As of August 1, 2022, the deadline for participation, 36 firms and 19 government entities (55 in total) have responded to the survey.

Survey responses are grouped separately for firms and state agencies. We have presented the basic characteristics using graphical analysis and cross tabulations. We also conducted ranking analyses to compare countries and rank the importance of barriers and effectiveness of interventions.

2.3.2 Analysis of Survey Findings

As mentioned above, the survey is completed by 36 firms and 19 government entities. The country distribution of participants is shown in Figure 2.33. Looking at the sample of firms, we find that most participants are from Benin (10 firms). This is followed by 7 firms from Morocco, 4 firms from Turkey, and 3 firms from Egypt and Nigeria. The government institution sample exhibits a more homogeneous distribution. While two government institutions filled the survey in 6 countries (Azerbaijan, Bangladesh, Malaysia, Gambia, Jordan and Turkey), one institution participated to the survey from 7 countries (Brunei Darussalam, Burkina Faso, Niger, Nigeria, Oman, Palestine and Saudi Arabia).

Figure 2.33. Distribution of Participants by Country



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey.*

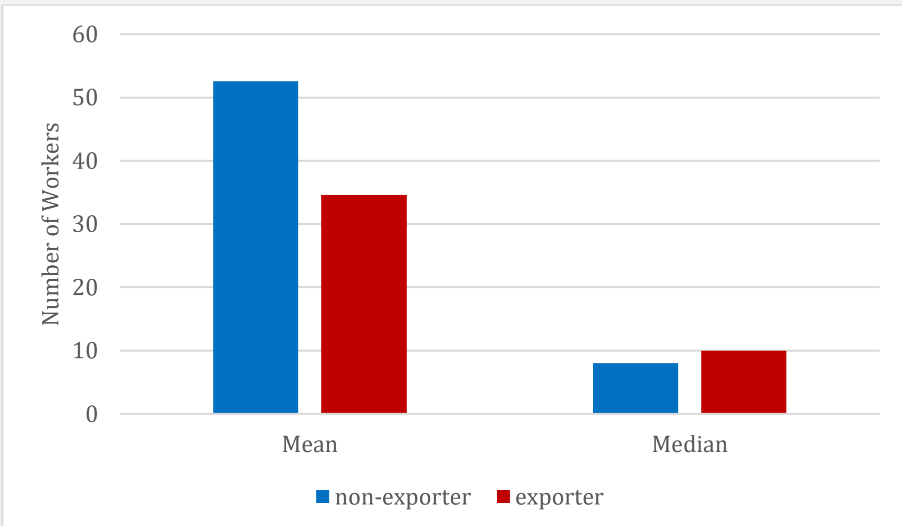
2.3.2.1 Firm Sample

Of the 36 firms in our sample, 21 firms are non-exporters and 15 firms are exporters. While 8 non-exporters indicated that they have no plans to export in the future, 13 of them plan to engage in exporting. We also asked about the reasons why they do not plan to export. 6

companies indicated that they are service providers, 1 of them chose the option "Lack of human capital" and 1 of them chose the option "Do not have enough information about export markets".

Exporters are expected to be larger than non-exporters. However, in our sample, the median employment of non-exporters and exporters is 52.5 and 34.6, respectively. On the other hand, the median employment of exporters is higher than that of non-exporters (Figure 2.34). This difference results from the outliers in the sample of non-exporters. As for micro-enterprises, the share of micro-enterprises is higher for non-exporters, as expected. It is 52.3 percent for non-exporters and 40 percent for exporters.

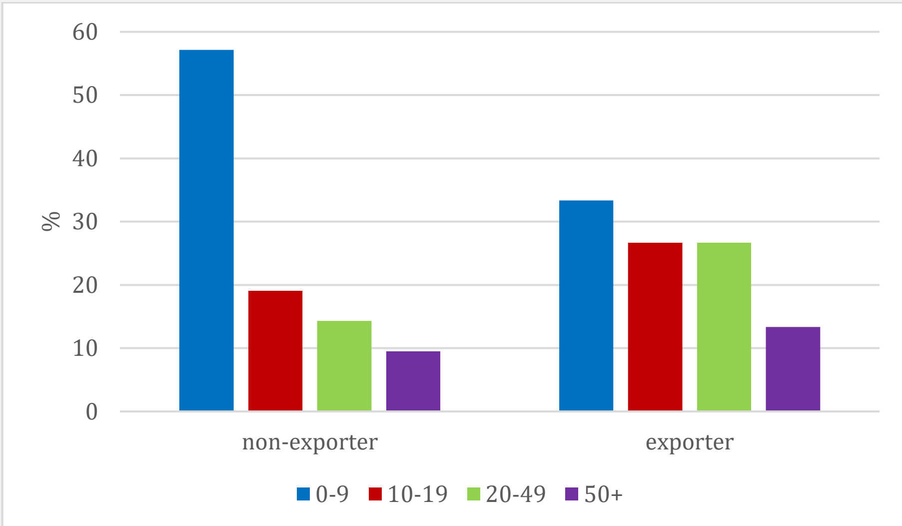
Figure 2.34. Mean and Median Employment by Export Status



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey.*

Exporting firms are older. While the share of non-exporters with an age of 0-9 years is 57.1 percent, it is only 33.3 percent for exporters (Figure 2.35). As expected, most of the exporting firms are manufacturing firms (87 percent). When we look at non-exporting firms, we find that they are mostly in the service sector (58 percent). We also ask about the shareholder structure of the firms in the survey. Only two of the firms have foreign shareholders and both are non-exporters. On average, 42.85 percent of the exporting firms' sales are generated in the foreign market and 57.15 percent in the domestic market. As for production, the share of production for export is 44.29 percent and for domestic markets is 55.71 percent.

Figure 2.35. Age by Export Status



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey.*

One of the key factors for export activity is obtaining information about target markets. In this context, we asked both exporting and non-exporting but planning-to-export-firms how they obtain or plan to obtain information about opportunities in export target markets.

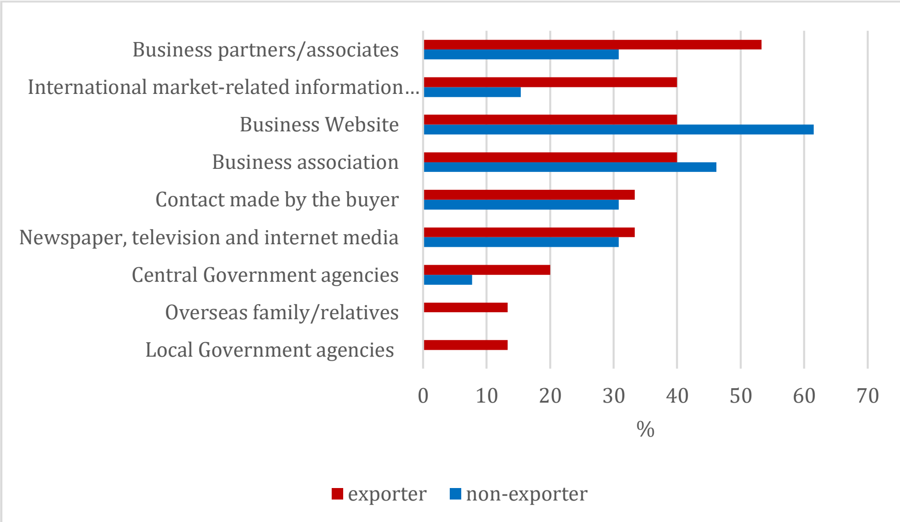
Figure 2.36 shows the percentage of firms that use or plan to use this particular channel. Most export firms use business partners to reach target markets. International market information portals, business websites, and business associations are the other most frequently used channels.

An important finding for exporters is the low percentage of government channels. When we compare exporters and non-exporters, we find that the ranking of channels is different. In this regard, the creation of platforms for the exchange of experiences between exporters and non-exporters is an important policy implication.

One of the main barriers to SME internalization is export barriers. A better understanding of the barriers will help policymakers develop well-structured and targeted policies to overcome them. In the survey, we asked all companies about their perception of internal and external barriers.[12] Hence, we will be able to differentiate the barriers between exporters and non-exporters.

[12] Perception of barriers is measured using a five-point Likert scale from 1(not at all important) to 5 (extremely important)

Figure 2.36. Channels to Obtain Information on Export Opportunity by Export Status



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey.*

Table 2.34 shows the average score and rank of internal barriers for exporters and non-exporters. Internal barriers consist of 5 main barriers (information barriers, human resource barriers, financial barriers, product and price barriers, and distribution and logistics barriers) and related sub-barriers.

According to the table, there is a large difference between exporters and non-exporters in their perception of internal barriers. The average score of exporters is significantly higher than non-exporters which states that barriers became higher with the realization of exporting activity. In terms of main barriers, for both exporter and non-exporter firms, financial barriers are the most important barriers.[13] However, while information barriers are the second most important barrier for exporters, product and price barriers are the second most important barrier for non-exporters. This is to be expected since exporters have already achieved the quality of their products required for export. The third important main barrier for exporters is distribution and logistics barriers, and the sub-barrier is excessive transportation and insurance costs. On the other hand, the third important main barrier for non-exporters is information barriers.[14]

In summary, due to high transportation costs, exporting firms primarily have difficulty financing their exports, obtaining information about export markets, and distributing their goods in

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[13] Moreover, "Shortage of funds to finance working capital for internationalization" and "Shortage of funds to finance the investment needed for internationalization" are the most important barriers for both types of firms.

[14] The most important sub-barrier (difficulty in identifying business opportunities in export markets) is an information barrier.

external markets. In the perception of non-exporting firms, financing exports, maintaining product quality for export and access to information about export markets are the most important barriers.

Table 2.34. Perception of Internal Export Barriers by Export Status

	Exporters		Non-Exporters	
BARRIERS	**Average Score**	**Rank**	**Average Score**	**Rank**
Informational barriers	**3.58**	**2**	**3.29**	**3**
Limited information to locate/analyze potential markets	3.66	5	3.38	4
Unreliability, inaccessibility and high cost of data regarding export markets	3.6	6	2.9	11
Difficulty in identifying business opportunities in export markets	3.86	4	3.57	1
Difficulty in contacting foreign buyers/customers	3.2	9	3.33	5
Human resource barriers	**3.26**	**4**	**2.8**	**5**
Inadequate number of personnel and/or unprofessional personnel for export	3.26	8	2.80	12
Financial barriers	**3.95**	**1**	**3.38**	**1**
Shortage of funds to finance working capital for internationalization (such as for production, research & traveling)	4.06	2	3.47	2
Shortage of funds to finance the investment needed for internationalization	4.33	1	3.47	2
Shortage of insurance for internationalization (including export products and assets abroad)	3.46	7	3.19	8
Product and price barriers	**3.22**	**5**	**3.35**	**2**
Difficulty in developing/adapting new products for export markets	2.93	10	3.33	5
Difficulty in meeting foreign product quality/principles/ specifications	2.86	11	3.42	3
Difficulty in matching competitors' prices in export markets	3.86	4	3.28	6
Distribution and logistics barriers	**3.36**	**3**	**3.18**	**4**
Difficulty in establishing and using distribution channels in export markets	3.26	8	3.09	10
Excessive transportation and insurance costs	4	3	3.23	7
Difficulty in offering technical and after-sale services	3.26	8	3.14	9
Difficulty in the storage of export products	2.93	10	3.23	7

The average score and rank of the external barriers are shown in Table 2.35. Comparing Table 2.34 and Table 2.35, we see that in both tables the average score of exporters is higher than the average score of non-exporters. However, unlike the internal barriers, the perception of external barriers is similar for exporters and non-exporters. For both groups of firms, government barriers within their own country are the most important barriers. In this regard, policies to support exports are particularly important for both exporting and non-exporting firms. The second main important barrier is tariff and non-tariff barriers. In particular, the "high cost of customs administration in host countries" is the second most important sub-barrier for non-exporters and the third most important sub-barrier for exporters.

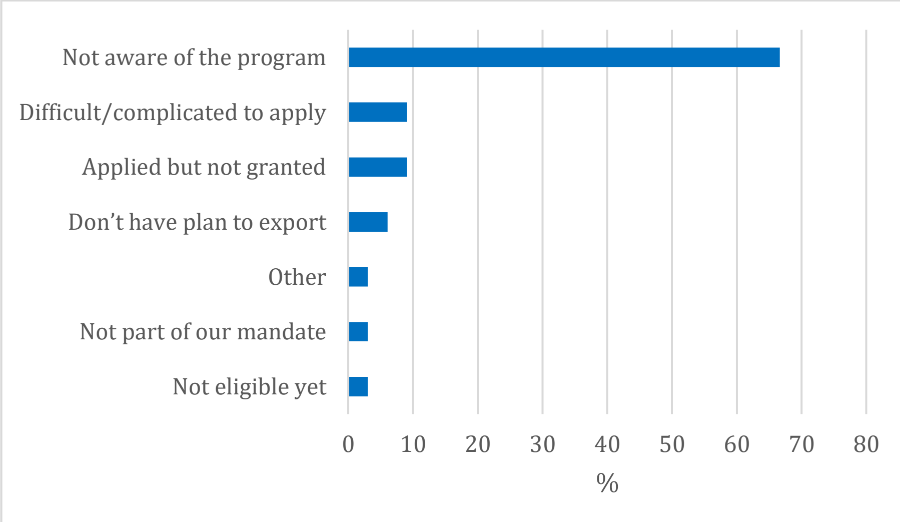
Table 2.35. Perception of External Export Barriers by Export Status

	Exporters		Non-Exporters	
BARRIERS	**Average Score**	**Rank**	**Average Score**	**Rank**
Home governmental barriers	**3.86**	**1**	**3.22**	**1**
Lack of home government support/incentives	3.93	2	3.38	1
Unfavorable home rules and regulations (such as no diplomatic relations and export restriction)	3.66	5	3	7
Underdeveloped payment mechanisms related to foreign trade	4	1	3.28	3
Foreign governmental barriers	**3.43**	**3**	**2.97**	**3**
Restriction on foreign ownership and on the movement of business representatives (difficulty in obtaining visa, quotas, duration of stay)	3.73	4	2.85	9
Foreign governments' unequal treatment compared to domestic firms in tax	3.2	9	3.04	6
Foreign governments' unequal treatment compared to domestic firms in business competition regulation	3.4	8	3.04	6
Business environment barriers	**3.16**	**4**	**2.83**	**4**
Differences in social-cultural environment	3.13	10	2.95	8
The negative image of my country's products abroad	3.2	9	2.71	10
Tariff and non-tariff barriers	**3.51**	**2**	**3.08**	**2**
High tariff barriers in foreign countries	3.4	8	3.23	4
Restrictive health, safety, environmental & technical principles	3.6	6	3	7
Arbitrary tariff classification	3.2	9	2.85	9
Unfavorable quotas and embargoes	3.42	7	2.95	8
High competition from international competitors with preferable tariffs by regional trade agreements	3.6	6	3.14	5
High costs in customs administration in host countries	3.85	3	3.33	2

Government support is very important for exports. We asked all firms if they had ever participated in a government support program for internationalization. Of the 36 companies, only 3 have participated in a support program, 2 from Turkey and 1 from Burkina Faso, and all are export companies. While one of the companies stated that they started exporting earlier because of the support, two of them stated that the program had no immediate impact, exporting would have taken place even without support.

It is also important to understand the reasons why the firms did not participate in any of the support programs. Figure 2.37 shows the percentage of firms indicating each reason. 66.7 percent of companies indicated that they were not aware of the programs. In this regard, the governments of OIC Member States should make more efforts to publicize the programs. In addition, the application process should also be facilitated.

Figure 2.37. Reasons for Not Participating in Any of the Support Programs



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

As mentioned above, the participating firms indicated that the most important barrier is the lack of funding. We attempted to identify the available funding instruments in each OIC member country by asking firms to select the available financing instruments in their country listed in Table 2.36.

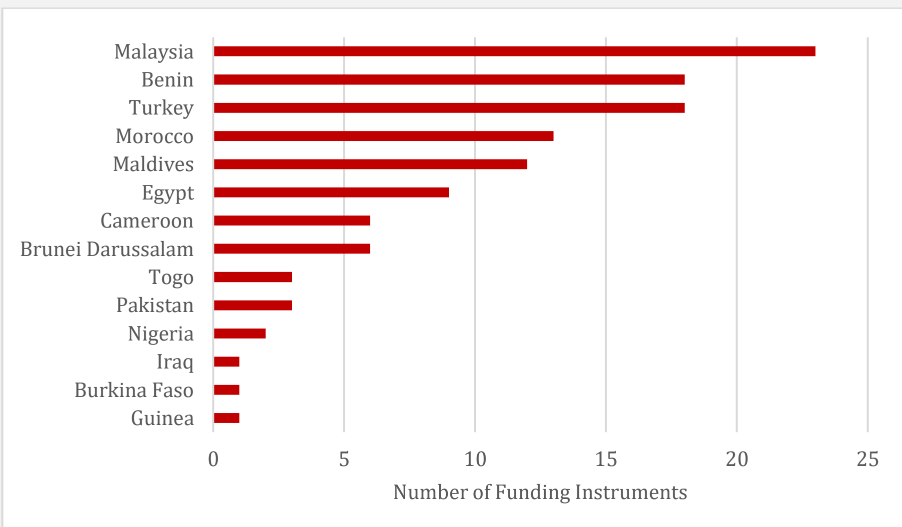
Figure 2.38 shows the total number of instruments in each country. The figure shows that Malaysia, Benin, and Turkey have financial systems that offer many alternative instruments to firms. Iraq, Burkina Faso, and Guinea, on the other hand, need to improve the number of available financial instruments.

Another issue related to SME financing relates to the barriers to raising funds. Figure 2.39 shows the number of firms citing the relevant item as an obstacle. Complicated procedures and high interest rates are the obstacles mentioned by most companies. In addition, the requirement for collateral is also an inhibiting factor. Easing borrowing procedures, providing credit at low cost, especially through public banks, and using CGFs could be immediate and effective policy measures to overcome these obstacles.

Table 2.36. List of Funding Instruments

Bank loan: short-term [less than 1 year]	Venture capital: mid-term
Bank loan: mid-term [1–5 years]	Venture capital: long-term
Bank loan: long-term [over 5 years]	Microfinance institutions
Nonbank loan [finance company, pawnshop, etc.]: short-term	Borrowing from family, relatives, and friends
Nonbank loan [finance company, pawnshop, etc.]: mid-term	Borrowing from other companies: parent company
Nonbank loan [finance company, pawnshop, etc.]: long-term	Borrowing from other companies: others
Factoring	Public loan programs: a central government program
Financial leasing	Public loan programs: a local government program
Eximbank credits	Corporate bond and debenture
Trade finance	Equity finance
Crowdfunding	Own funds
Venture capital: short-term	Other

Figure 2.38. Number of Available Funding Instruments by Country



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

Figure 2.39. Obstacles Inhibiting Fundraising

Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

Table 2.37. Average Score of Government Policies for SMEs Access to Finance

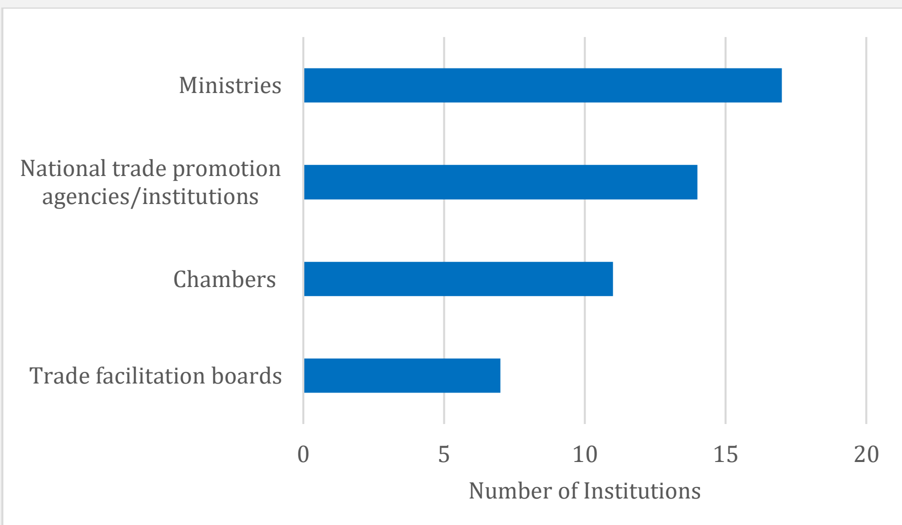
Government Policies	Average Score
Creation of specialized financial institution(s) for SMEs (e.g., public SME bank)	4.50
Mandatory lending to SMEs for commercial banks	4.33
Tax incentive schemes for priority SME sectors	4.31
Socialization programs/workshops/seminars to promote financial literacy for SMEs	4.25
Creation of SME incubation fund (providing growth capital to seed firms, start-ups, and entrepreneurs)	4.22
Support for developing the venture capital industry serving SMEs	4.19
Interest rate subsidy for bank credit to SMEs	4.17
Support for creating long-term financing venue for SMEs (e.g., SME capital markets (equity finance and/or bond issuance)	4.14
Laws and regulations on secured lending (including the creation of collateral registries to promote movable asset financing)	4.11
Support for developing trade finance and supply chain finance	4.11
Support for new financing models (e.g., crowdfunding)	4.08
Support for developing the base of professionals serving SMEs (e.g., increase the number of certified public accountants (CPAs) serving SMEs)	4.08
Public credit bureau and/or SME credit risk database	4.03
Support by international organizations such as EBRD/UNDP/EU	4.03
Public credit guarantee schemes	4.00
Support for developing nonbank financing instruments (e.g., lease and factoring)	3.89
Refinancing facility (the government provides concessional loans and guarantees through participating financial institutions)	3.81

Finally, we ask firms to rate government policies to improve SMEs' access to finance using a five-point Likert scale ranging from 1 (less important) to 5 (very important). Table 2.37 shows the average score for each policy. The creation of specialized financial institutions for SMEs, mandatory SME lending for commercial banks, and tax incentive schemes for priority SME sectors are the most important government policies in the area of SME finance according to the participants.

2.3.2.2 Government Institutions Sample

As mentioned earlier, 19 government institutions from 13 countries responded to the survey (Figure 2.33). We first ask government institutions, relevant national authorities, or key national partners in deciding, coordinating, enforcing, and evaluating SME internationalization. Figure 2.40 shows the number of institutions that indicated the relevant authority. Ministries are the generally recognized authority in SME internationalization in OIC member countries. On the other hand, chambers and trade facilitation bodies are not considered competent authorities in many member countries. Given the importance of trade associations in internalization, both in the literature and in our companies' responses, the role of chambers of commerce should be strengthened in these countries.

Figure 2.40. National Authorities in Internalization of the SMEs



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

To obtain detailed information about the programs implemented by the institutions, we asked a series of questions. Figure 2.41 shows the number of institutions running a program, broken down by program type. Programs are mostly aimed at providing market information. Expert advice and participation in trade fairs/exhibitions are the other most frequently implemented programs. On the other hand, branding programs were implemented to a limited extent in the member countries. In developing the programs, 7 institutions indicated that they used data from SME business activities, 6 institutions indicated that they used feedback from SMEs, and 6 institutions indicated that they followed government instructions. Of the 19 programs, 15 were implemented at the national level, 3 were implemented at the sectoral level, and 1 program was implemented at both the sectoral and regional levels. In addition, 4 of the programs have international cooperation, 8 have bilateral cooperation, and 3 have regional cooperation.

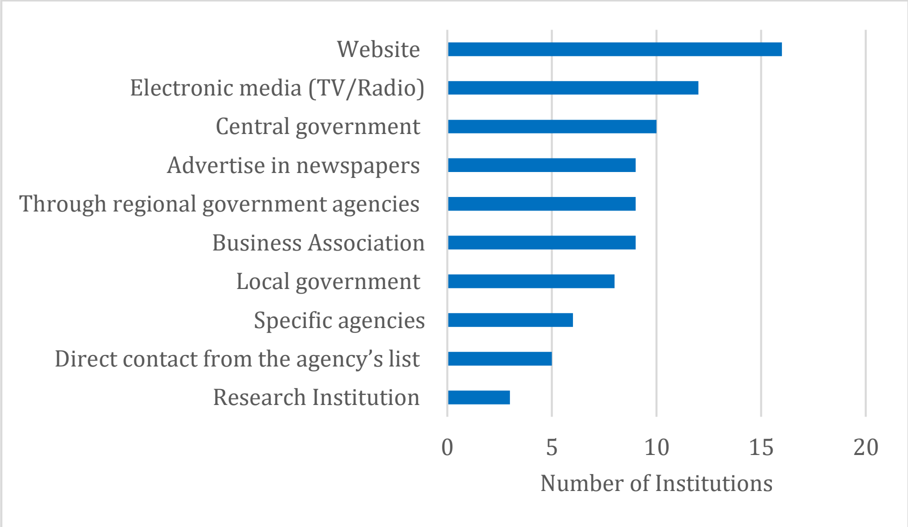
We also asked whether the implementation of the program requires a change in the legal framework and organizational structure. 7 of the institutions indicated that implementation would require significant changes to the legal framework. 9 of the institutions stated that implementation requires changes and 3 of them stated that it needs to be suspended. In terms of organizational structure, 5 institutions stated that the program requires restructuring between institutions, 4 institutions stated that it requires changes in the organization within the institution, and 10 institutions stated that implementation does not require organizational changes.

Figure 2.41. Type of Support Programs

Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

One of the key findings of the firm survey was that the main reason for not applying to programs was that firms "did not know about the program." In this context, it is important to analyze how institutions publicize the program. As shown in Figure 2.42, the most common way of publicizing in OIC member countries is through website announcements. Electronic media, central government, and newspapers are the other most frequently used ways.

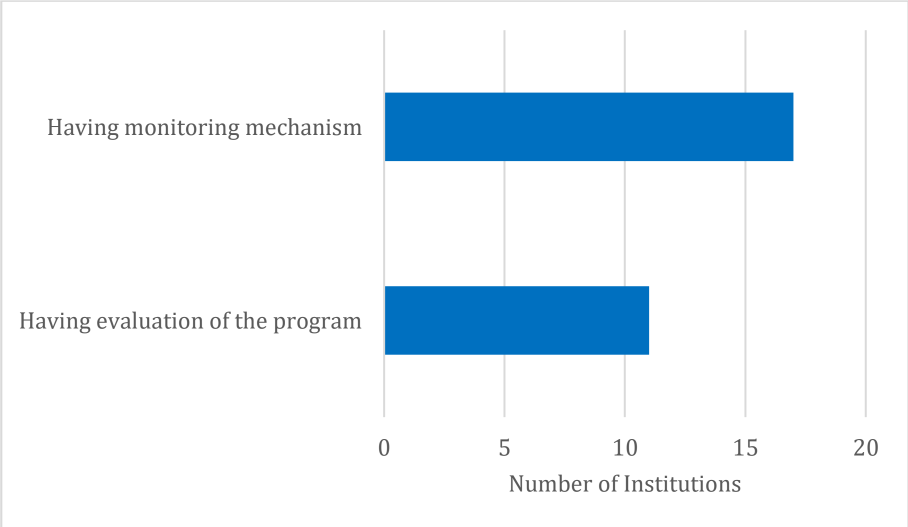
Figure 2.42. Publicizing Channels of the Program



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

A critical step for a successful program is monitoring. We asked institutions if they have any form of monitoring mechanism. According to Figure 2.43, 17 institutions have a monitoring mechanism. We also ask whether or not the institution evaluates its program. The evaluation rate is lower, with 11 institutions evaluating the effectiveness of their program (Figure 2.44).

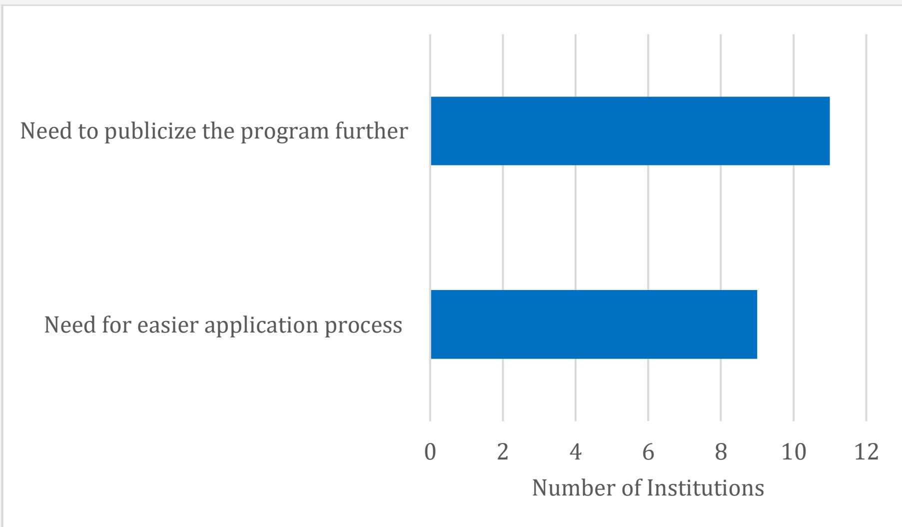
Figure 2.43. Monitoring and Evaluation of the Program



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

The survey also asks about the key outcomes of the monitoring and/or evaluation processes. More than half of the institutions indicated that the program needs to be better publicized. This is consistent with responses from companies that indicated they were unaware of the programs. Another finding from the monitoring/evaluation of the programs is the need to simplify the application process. This was also cited by firms as an important barrier to exporting. An important point regarding the programs is that 17 out of 19 institutions indicated that their actions have led to an increase in exports by SMEs.

Figure 2.44. Findings of Monitoring and/or Evaluation of the Program



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

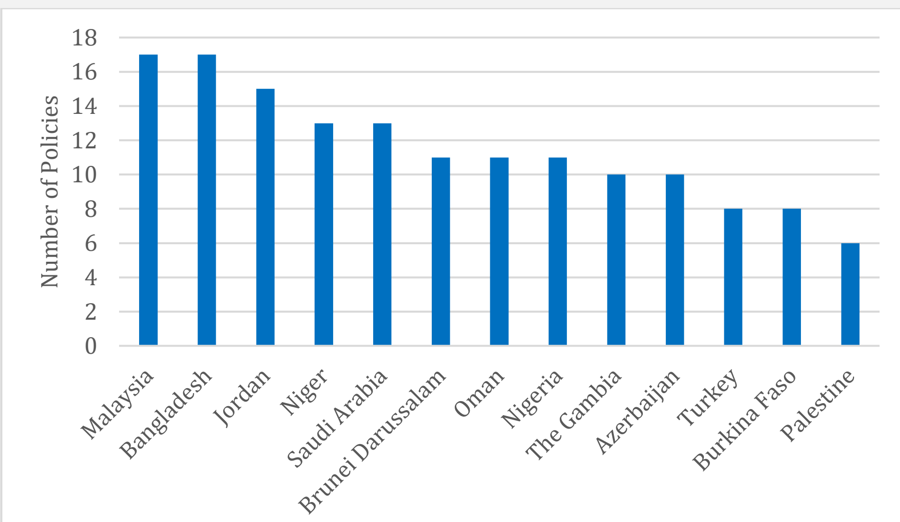
We asked participants about the available SME financing measures in their countries. Table 2.38 shows the number of countries that have such policies in place. Since we have 13 different countries in our sample of government institutions, the maximum value a policy can take is 13. From the table, we can see that SME financial literacy policies are present in all countries. The second most popular policy is the creation of specialized financial institutions for SMEs and is available in 10 different countries. This is important because the participating companies indicated this as the most important policy (see Table 2.37). When we compare these two tables, we see that the measures that companies ranked as important are generally available in most countries.

We also rank countries by the number of SME finance measures available (Figure 2.45). According to the figure, Malaysia and Bangladesh are the most successful countries; all measures are available in these countries. Turkey, Burkina Faso, and Palestine need to increase the number of SME financing measures available.

Table 2.38. Availability of Government Policies for SMEs Access to Finance

SME Finance Policies	Number of Countries
Socialization programs/workshops/seminars to promote financial literacy for SMEs	13
Creation of specialized financial institution(s) for SMEs (e.g., public SME bank)	11
Public credit bureau and/or SME credit risk database	10
Refinancing facility (the government provides concessional loans and guarantees through participating financial institutions)	10
Support for developing the base of professionals serving SMEs (e.g., increase the number of certified public accountants (CPAs) serving SMEs)	10
Tax incentive schemes for priority SME sectors	10
Public credit guarantee schemes	9
Laws and regulations on secured lending (including the creation of collateral registries to promote movable asset financing)	9
Creation of SME incubation fund (providing growth capital to seed firms, start-ups, and entrepreneurs)	9
Interest rate subsidy for bank credit to SMEs	8
Support for creating long-term financing venue for SMEs (e.g., SME capital markets (equity finance and/or bond issuance)	8
Support for developing the venture capital industry serving SMEs	8
Mandatory lending to SMEs for commercial banks	7
Support for new financing models (e.g., crowdfunding)	7
Support for developing trade finance and supply chain finance	7
Support for developing nonbank financing instruments (e.g., lease and factoring)	7
Support by international organizations such as EBRD/UNDP/EU	7

Figure 2.45. Number of SME Finance Policies by Country



Note: *Authors' elaboration.*
Data Source: *SME Internationalization Survey*

The aim of the support programs is to facilitate exports of SMEs by removing the barriers to exports. In this regard, we asked government institutions to tell us which export barriers are targeted by the measures. The most frequently cited internal barriers are lack of funds to finance working capital for export, difficulties in meeting product quality in overseas markets, and difficulties in establishing and using distribution channels in export markets (Table 2.39). These obstacles are also mentioned by enterprises as important barriers. Therefore, the implemented programs can be considered successful in eliminating the actual internal obstacles.

The average number of internal barriers targeted by a program is 7.37, indicating broad coverage by the programs. This could be a good indicator that the program is actually removing the targeted barriers. However, if this broad coverage causes programs to lose focus, then intuitions need to design more targeted programs.

Table 2.39. Support Programs and Internal Export Barriers

BARRIERS	Number of Programs
Informational barriers	
Limited information to locate in export markets	10
Unreliable, inaccessible and high cost of information about export markets	7
Difficulty in identifying business opportunities in export markets	12
Difficulty in contacting foreign buyers/customers	9
Human resource barriers	
Inadequate number of personnel and/or unprofessional personnel for export	7
Financial barriers	
Shortage, of funds to finance working capital for export	13
Shortage of funds to finance investment for export	11
Insurance shortage for export	6
Product and price barriers	
Difficulty in developing new products for export markets	10
Difficulty in meeting product quality/principles/specifications of overseas markets	13
Difficulty in matching competitors' prices	10
Distribution and logistics barriers	
Difficulty in establishing and using distribution channels in export markets	13
Difficulty in supplying inventory abroad	6
Excessive transportation and insurance costs	9
Difficulty in offering technical and after-sale service	4

The information on external barriers is reported in Table 2.40. Compared to internal barriers to export, external barriers are less targeted by the implemented programs. This is in line with the firms' responses since the firms gave less importance to external barriers.

Table 2.40. Support Programs and External Export Barriers

BARRIERS	Number of Programs
Home governmental barriers	
Lack of home government support/incentives	7
Unfavorable home rules and regulations (e.g., no diplomatic relations)	3
Underdeveloped payment mechanisms related to foreign trade	6
Foreign governmental barriers	
Restriction on foreign ownership and on the movement of business representatives (difficulty in obtaining visa, quotas, duration of stay)	7
Foreign governments' unequal treatment compared to domestic firms in tax	5
Foreign governments' unequal treatment compared to domestic firms in business competition regulation	6
Business environment barriers	
Differences in social-cultural environment	6
The negative image of my country's products abroad	2
Tariff and non-tariff barriers	
High tariff barriers in foreign countries	10
Restrictive health, safety, environmental & technical principles	7
Arbitrary tariff classification	1
Unfavorable quotas and embargoes	1
High competition from international competitors with preferable tariffs by RTAs	6
High costs in customs administration in host countries	9

In conclusion, the survey provides some important insights from the perspective of both firms and government institutions. Perceptions of export barriers differ between exporters and non-exporters. Firms' participation in government support programs is limited. The main reason is that they are not aware of the program. In this regard, chambers of commerce are important and need to be strengthened in the OIC member countries. The lack of awareness is also confirmed in the responses from government institutions, as one of the main findings from the institutions' monitoring process is the need to further publicize the program. The implemented programs seem to target the main barriers. However, on average, the goal of the programs is very broad. Since we only have self-assessed success criteria, we do not know whether or not the programs have really led to an increase in SME exports. Therefore, we cannot determine whether programs with such a broad focus are more effective or whether more targeted programs are more effective.

3 PRINCIPLES AND RECOMMENDED PRACTICES

It is one of the most vital tasks of state authorities to support the internationalization of their local SMEs in this age of globalization. However, it is not an easy task to build a diversified support system with export promotion agencies and a comprehensive SME policy implementation organization functioning harmoniously with each other.

Moreover, it is not advisable to simply adopt a particular program that seems applicable or suitable for certain countries. It is essential to appreciate the specific development history of each program if countries with different systems want to adopt a program that seems suitable for them. An effective program in a particular country is no guarantee of success in another country unless the program is suitably modified and implemented under appropriate conditions.

The OIC and non-OIC countries for which desk studies and field visits were conducted as part of this report have followed diverse paths of economic development and have different economic, social, political, and cultural systems. Therefore, due to these differences in each OIC country and the different political and trade commitments of OIC countries under bilateral, regional or international agreements, the practical recommendations below are not exhaustive. It is also obvious and acceptable if an OIC country develops and applies completely different modalities or instruments, which are not mentioned in this report.

With these in mind, this chapter provides the necessary information or required steps for the effective development and implementation of SME internationalization programs and initiatives at the national level. The chapter contains two types of basic information:

1. **Principles,** which identify and summarize the requirements for successful SME internationalization in the following three main categories:
    a. Development phase of programs/initiatives for SME internationalization
    b. Implementation of programs/initiatives for SME internationalization
    c. Evaluation of programs/initiatives for the internationalization of SMEs
2. **Recommendations**, which are intended not only to support the proposed principles, but also to enable Member States to recognize the different modalities or practices in different OIC and non-OIC countries with respect to each standard.

In the chapter, this structure is preceded by the fundamental components of successful policy development and implementation for internationalization. These are the building blocks for all countries that have the goal of developing their country's economy through engagement in international markets at the SME level and do not differ from country to country.

Principle: *MSMEs are required to operate formally.*

→ **Recommendations:**

Throughout the world, especially in developing countries, informal activity by MSMEs is a significant problem. Given that MSMEs are a driver of national economic growth, formalizing informal MSMEs is critical to increasing productivity, creating better jobs, and supporting inclusive growth.

The OECD has published several documents and guidelines enriched with best practices, such as Best Practice Principles for Regulatory Enforcement and Inspections (OECD, 2014), OECD Regulatory Enforcement and Inspections Toolkit (OECD, 2018), and Formalization of Micro Enterprises in ASEAN: Policy Insight (OECD, 2020). The general recommendation is not to take overly stringent measures to discourage MSMEs. The detailed recommendations are as follows:

- *Effectively enforce regulations requiring registration of informal businesses.* Enforcement mechanisms are recommended, complemented by other reforms such as facilitating formalization.
- *Provide benefits for formalization and penalize informality.* Since the state is the largest procurer of goods and services, governments should use public procurement to either penalize or incentivize local SMEs to support and otherwise promote them.
- *Create better frameworks for the formal sector.* Reducing the time and cost of registration and reducing administrative burdens would encourage formalization.
- *Use digitalization in business registration.* Quick and easy registration would reduce the cost of formalization.
- *Introduce a simplified legal system for startups.* Simplifying business registration and making it cheaper or free would be attractive to informal MSMEs.
- *Use policy instruments for an incentive-based formalization mechanism.* Reducing the burden on formal businesses, access to finance, business development services, and public procurement would be the components of incentive-based mechanisms.

Principle: *Firm-level data on SME exports must be collected and published regularly.*

→ **Recommendations:**

Policy makers need timely and accurate data to design effective and efficient policies. They assess the characteristics and contribution of SMEs to exports and the overall economy and analyze changes in the sector over time). Therefore, countries should collect and publish data on business characteristics in a timely manner (APEC, 2020).

Similar to many developing countries, COMCEC members currently lack data on exports by enterprise, which hinders the analysis of export patterns. Without data on the export status of

SMEs, it is very difficult to quantitatively assess and measure whether SMEs are becoming more engaged in exports over time and whether export promotion policies are working effectively.

Collecting comparable data on SME export activity would allow for improved cooperation among OIC member countries to enhance their success in increasing SME internationalization.

- *Collect data on SME export activity in accordance with international principles*. Collecting comparable data is essential to shape policy and learn from other countries' experiences. This task may not be easy. Support from international organizations would be very helpful for in-country capacity building.
- *Involve customs and other relevant institutions in the SME export data collection process.* To collect export data by enterprise size, support from government agencies such as Customs is needed to collect enterprise size along with export data, or from the domestic agency that conducts the economic survey of enterprises to include questions on exports.
- *Publish SME export data regularly*. Public agencies, researchers, and the private sector would use the data for various purposes, which would ultimately improve SME export activity.

Principle: *Support jungles need to be avoided.*

→ **Recommendations:**

When a country has been running SME support programs at the local, regional, and national levels for some time with many different institutions, from SME agencies to ministries to international institutions, it is not uncommon for that country to have hundreds, sometimes thousands, of programs running simultaneously. These so-called support jungles lead to a variety of undesirable scenarios, such as duplication of programs, continuation of unproductive ones, and crowding out of programs that can have a real impact. This is simply a waste of time and money. Although they are exemplary in terms of supporting SME internationalization, the support jungles in countries such as Malaysia, Spain and South Korea could not be avoided. The following steps may help preventing these:

- *Set up a central electronic repository for past and existing support programs*. This repository can be used to search what was done and when. For this purpose, it should store all types of information about the program, from support requirements to financial scope, from planned processes to impact analysis (for completed programs only).
- *Appoint a liaison in each institution that can give support to SMEs*. These liaisons should be responsible for transmitting the information to the repository.
- *Before starting to develop a new program, consult the repository first*. Only then, and if there is a need, a new program should be started. This way, rather than having a multitude of programs serving the same purpose, existing ones that work effectively can

be strengthened using this electronic infrastructure. Furthermore, truly needed new programs could be designed and implemented.

Principle: *Institutional framework necessary for successful utilization of regional and international funds must be operational.*

→ **Recommendations:**

As described in Chapter 1, there are many international institutions that provide funding for SME internationalization. However, it is difficult and time-consuming for SMEs to seek and apply for these funds. They need the government's help, and the recommendations are as follows.

- *Contact international agencies regarding the availability of funds*. Government officials should contact the international agencies and find out the details of the programs offered.
- *Develop capacity in SME support institutions for international funds*. There are many international institutions that provide funds to increase SME exports. These programs usually come with many strings attached. To achieve this goal, a dedicated capacity within the government is needed to advise SMEs.
- *Inform SMEs of the appropriate application requirements*. A general call to all SMEs about available programs would not work because it would be very time consuming for SMEs to check the application requirements. The relevant government agency would review all programs and only inform eligible SMEs.
- *Guide SMEs in applying*. Application criteria for domestic and international funds are very different. SMEs can take help from the government in applying.

Principle: *Engagement in FTAs, RTAs and bilateral agreements that specifically address SME internationalization is required.*

→ **Recommendations:**

The main objective of international cooperation for countries is to create a more inclusive trading system that helps unlock the trade potential of SMEs. Rules that reduce both the variable and fixed costs of trade level the playing field and reduce some of the major barriers SMEs face. In this regard, SMEs can benefit from trade agreements, whether they are bilateral or plurilateral. The benefits come from reducing or eliminating tariff and non-tariff barriers, simplifying customs procedures, promoting e-commerce, and increasing the transparency of trade-related national regulations (WTO, 2016). The following are the recommended paths of action in this respect:

- *Have more generous reductions in tariff barriers for SMEs*. Higher tariffs in destination markets make it more difficult for firms to profitably export. Only the more productive firms will export in such an environment, whilst smaller and less productive firms will not.
- *Where possible, make exemptions or decrease the stringency of non-tariff barriers, in particular technical barriers to trade (TBT)/SPS measures, for SMEs*. Evidence shows that tighter TBT/SPS measures are particularly costly for smaller firms (Reyes, 2011; Maertens and Swinnen, 2009).
- *Take extra care in the design of trade facilitation measures so that SMEs are not left behind.* Trade facilitation can promote the entry of SMEs into export markets. The simple correlation between the minimum size of exporting firms by country and export time support this possibility.
- *Have extra provisions in trade agreements that eases the burden of information collection for SMEs.* Gathering information is a crucial factor in determining export decisions, but it bears a cost. This cost is to a large extent independent of how much a firm will export. Therefore, it is a cost that affects especially small firms that are less capable than large firms of spreading information costs across output.

Principle: *Trade facilitation measures are required to be specifically geared towards SMEs.*

→ **Recommendations:**

SMEs are inclined to have a lower capacity to deal with organizational and regulatory procedures, limited networks, and less bargaining power. They are also less aware of and less likely to comply with international principles. This is compounded by insufficient or costly access to finance and lower levels of trade intelligence (OECD/EIRA, 2018). The literature has revealed that as trade becomes easier, SMEs are more likely to begin exporting and policies to reduce policy uncertainty and access to IT services can have a sizeable effect (Li and Wilson, 2009). There are studies showing that reducing customs approval times can have a greater effect on the odds for SME participation in GVCs than for larger firms (Duval and Utoktham, 2014).

Against this background, the following are suggested:

- *Plan and design clear strategies to help SMEs comply with customs regulations*. Special programs can be established to help SMEs comply with customs procedures, or existing resources can be more focused on SMEs.
- *Provide SME-specific procedural guidance for transparency and predictability*. For example, trade portals can be established to serve as a one-stop store for SMEs to handle import and export procedures.
- *Simplify customs procedures*. Trade barriers can be reduced by installing an e-customs system, adopting an AEO program, and implementing a national single window system, including associated IT training for SMEs.

3.1 Phase 1: Development

The principles and the accompanying recommendations are presented in the order of execution in this section and deemed to be required for successful development of programs/initiatives for SME internationalization.

Principle 1: *Legal basis is required.*

→ **Recommendations:**

Any kind of political intervention needs a legal basis to be legitimate. The type of laws and regulations may change according to the constitutional structure and needs of each country, but the main premise is the same when it comes to the internationalization of SMEs: It is to comprehensively promote policies for SMEs by establishing basic principles, fundamental policies and other basic issues related to policies for SMEs, and clarify the responsibilities of the state and local public institutions, so as to contribute to the healthy development of the national economy, its integration into the global economy and the improvement of people's quality of life.

The following are the elemental components of the legal basis:

- *Clearly state the objectives of SME-related laws and regulations*. These objectives set and define the policy framework to be designed and implemented for SMEs.
- *Adopt a uniform SME definition*. This definition may vary from country to country; however, it is useful if an international standard (when possible) is adopted for comparison purposes.
- *Plainly define the responsibilities of central and local public agencies*. The law should design the governance structure and the state should be responsible for formulating and implementing overall policies for SMEs in accordance with the previously defined objectives.
- *Define the basic policy areas*. These can range from promoting innovation to digitalization, from creating a culture of entrepreneurship to facilitating the financing of these enterprises, and finally from strengthening business fundamentals to internationalization.
- *Take the necessary legislative, fiscal and financial steps to implement measures for SMEs*. The government should strengthen the functions of state-owned financial institutions, develop a credit insurance system, promote adequate lending to SMEs by private financial institutions, and take all other necessary measures.
- *Regularly monitor the performance of policy support systems*. This is necessary to ensure the efficient operation of the system, smooth out the wrinkles in the existing programs, and terminate the outdated/inefficient programs.

Principle 2: *SME internationalization must be made a part of binding government plans and documents.*

→ **Recommendations:**

As discussed in Chapter 1, internationalization of business, especially SMEs, has far-reaching implications for development, such as higher-value economic growth, better employment opportunities, less poverty, and greater prosperity. Consequently, it is a good candidate to become part of the central government's policy agenda. The recommendations in this regard are as follows:

- *Develop an SME strategy*. This strategy, sometimes referred to as a policy framework, should encompass the various facets of SME development, including but not limited to creating a business-friendly environment, promoting entrepreneurship, providing financial support, building a culture of innovation, and internationalizing SMEs.
- *Set out the strategy in a binding multi-year document*. This document can provide clarity to all relevant stakeholders on the intended course and includes concrete targets and appropriate policy instruments in a variety of SME policy areas.
- *Position SME internationalization policies in the context of broader policy frameworks*. These include industrial, innovation or regional policies. All such frameworks should reflect the priorities of the national development agenda, the preference for the internationalization approach across the economy, or the institutional division of responsibilities between the central and other levels of government.

Principle 3: *If there is none, the government must appoint or establish a responsible body to orchestrate SME internationalization.*

→ **Recommendations:**

SME policy frameworks, including SME internationalization policies, are often very broad, as policies and instruments relevant to SMEs are wide-ranging. Consequently, the number of actors involved in SME policy is also large. These include ministries or agencies with specific responsibilities for SMEs, as well as those with broader responsibilities in areas such as taxation, education, labor markets, or infrastructure that are highly relevant to the business environment in which SMEs operate and internationalize. Moreover, the relevant actors operate not only at the central but also at the regional and local levels of government (OECD, 2021).

Therefore, the design of ministries and agencies responsible for SME internationalization policies will naturally vary across OIC countries depending on their needs and governmental structure. The following recommendations (pick one) take this fact into account:

- *Dedicate a ministry for SMEs*. The existence of dedicated ministries focused exclusively on SMEs can have the advantage of increasing the visibility of the SME portfolio and provides solid opportunities to develop specific frameworks for SME internationalization. For example, South Korea introduced a dedicated ministry for SMEs and startups in 2017 to replace the Small Medium Business Administration, an organization within the Ministry of Trade, Industry, and Energy, with responsibilities in trade, digital, and finance for SMEs previously assigned to other ministries.
- *Establish an SME agency*. Several countries have established one or more agencies to implement and execute SME and entrepreneurship policies (among other tasks). The missions of these agencies differ, but in most cases focus on trade and investment, innovation, and the implementation of financial and non-financial support instruments. In most countries, agencies do not focus exclusively on SMEs but on the broader business community. Such broader business agencies aim to benefit from the scale of support sectors and business categories. They provide one-stop shops for businesses, usually both physical and virtual, that are open to SMEs as well as other businesses. Since SMEs are often less well-informed about government support measures, a significant challenge for such general business agencies is to be sufficiently accessible to SMEs.

Principle 4: *Coordination and communication mechanisms between the stakeholders need to be in place and operational.*

→ **Recommendations:**

An effective policy framework for SMEs must ensure coherence and cooperation among the different policies and actors and provide clarity to the SMEs that the policy is intended to address and benefit. The goal of coherence is clear in the case of SME-focused policies, including specific SME-specific governance arrangements that aim to address the increasing complexity of the policy environment for SMEs and the growing challenges related to digital transformation and sustainability in a globally competitive ecosystem. Regardless of the choice of governance, it is important that the specific circumstances and needs of SMEs should be considered, underscoring the need for continuous dialog with stakeholders and analysis at a granular level (OECD, 2021). Below are the recommendations in this regard:

- *Design and implement a governance structure across different government agencies*. Some countries (such as Malaysia) have established SME-specific horizontal (between different ministries and agencies) and some (such as Spain) vertical (between different levels of government) governance mechanisms. However, many countries (such as South Korea) have established all-in-one institutions to ensure coherent and comprehensive access to policy instruments (OECD, 2019). In countries where SME internationalization strategies exist, they include organizational coordination mechanisms such as inter-ministerial committees and working groups (as in Spain).

- *Provide clarity to SMEs about the policy framework*. This can be done in a number of ways. Clean, well-defined, and easy-to-understand websites of ministries or agencies can inform SMEs. Chambers of commerce or SME cooperatives can be invited to information sessions at the ministry or agency. Or the administration of regional SME associations can be informed by the government, and the associations can then organize meetings to exchange information with their members.

Principle 5: *The institutional framework must be supported by necessary financial means and government guarantees.*

→ **Recommendations:**

Access to finance is always a major problem for SMEs, whether they operate domestically or internationally. Entering the international market is a big step for a small business. It takes time for SMEs to build trusted relationships in other countries. It is more difficult for SMEs to receive payments for export within a short period of time. Financial institutions in the country may consider SMEs' business risky and prefer not to lend to SMEs. In this regard, trade finance support and guarantees provided by the government are the most important tools for internationalization (ADB, 2015).

Below are recommendations on how to facilitate SMEs' access to finance as they move into international markets:

- *Offer trade finance through specialized institutions*. Government institutions such as Exim Bank or SME Bank are natural candidates for providing trade finance to SMEs. If these institutions are not available in the country, the central bank would delegate this task to a private institution.
- *Make SMEs aware of the sources of trade finance*. Publicity campaigns by public institutions or local banks would inform SMEs about access to trade finance.
- *Offer credit guarantees for SME lending*. Banks are reluctant to lend to SMEs because of the cost of loan handling and the risk of default. These barriers can be overcome by providing a guarantee. In doing so, the government should use expert personnel with experience and knowledge of credit transactions. Not all guarantee applications are suitable, and the agency must conduct a credit check. It also needs to develop efficient systems so that loans at banks that could be guaranteed can be processed proficiently.
- *Set a suitable rate for the guarantee*. The rate of the guarantee can differ widely from program to program, from close to 50 percent to over 90 percent. A high guarantee rate creates moral hazard by reducing the lender's due diligence and risk. It also allows SMEs to continue to rely on the guarantee and unprofitable businesses to continue to survive and become zombie firms.
- *Prevent political meddling in loan guarantees*. Applications for guarantees should be considered on their merits and not subject to nepotism for politically connected individuals or companies. Guarantees issued on the basis of political preferences

increase the default rate and the size of public subsidies. This can also result in potential borrowers who are worth more being priced out of the market (ADB, 2015).

Principle 6: *Regular training programs that are designed towards improving managerial and human resources skills of the government employees who are (will be) responsible from SME internationalization programs are required.*

→ **Recommendations:**

Supporting the internationalization of SMEs is a multidimensional task for the government. From the development of support programs to the implementation and monitoring of the programs, the government plays an active role. In this process, it is necessary to improve the skills of government employees to keep up with all these programs. In addition, given the rapidly changing technologies and business methods, the skills of employees should be kept up to date through regular training.

- *Design training programs for the newly hired government employees*. There should be regular training programs on internationalization of SMEs for the newly hired employees.
- *Design regular training programs for existing staff*. both the business world and technology are constantly changing. Government employees need to keep up with these changes and their skills and knowledge need to be kept current through regular training.
- *Participate in international institutions' training programs*. Many international institutions provide regular training for government staff on SME internationalization and its components. Attending these trainings would keep the skills of government staff up to date. Meanwhile, there are also many online trainings that minimize the cost of attending the trainings.
- *Take advantage of other COMCEC members' support for training*. There is technical expertise in many areas of SME internationalization in the various COMCEC member countries. Each country would offer a training program to the staff of COMCEC member governments on its expertise in SME internationalization. The COMCEC would coordinate these trainings.

Principle 7: *To be eligible for support, SMEs need to be sorted in terms of their capacity and potential for internationalization.*

→ **Recommendations:**

In many countries, there are numerous institutions responsible for the growth, capacity building, and export of SMEs. Considering that each institution must review applications for its program, a tremendous amount of manpower is required. To make better use of resources and reduce costs, the main institutions responsible for SMEs should sort them and make the results available to other stakeholders. The newly established funding programs would require that SMEs receive a benchmark rating as an eligibility criterion based on the nature of the program. In addition, the primary institution conducting the scoring would direct SMEs to different programs based on their needs. The recommendations are as follows:

- *Transfer the responsibility of designing a sorting system to the core SME institution*. The coordination of SME promotion is mainly done by the core institutions. Therefore, they are the most effective institutions that could design a sorting system.
- *Create questions to sort SMEs and identify their needs*. The questions should be designed to understand their needs and assess their capacities. If there is a gap, the questions should be revised.
- *Supplement the questions with site visits*. The collection of information from SMEs needs to be supplemented with site visits to obtain accurate and reliable results.
- *Suggest that the sorting system be voluntary*. Mandatory systems would discourage SMEs from applying or working formally. Therefore, the system should be voluntary. SMEs would participate in the system if there was an incentive to apply for funding programs, e.g., through a priori set criteria.
- *Share the results of the rating system with other stakeholders*. To get the most out of the rating system, share the results with other stakeholders. Each time they design a new program, they will ask applicants for a grading result. Once they have collected the applications, they will use the sorting results for shortlisting.
- *Involve SMEs in export assistance programs based on the results of the sorting system*. Export support is limited. If the system is publicly available, there is a cost for screening. Either the result of the system would be an application criterion for export support programs or export-ready companies would be invited to relevant support programs.

Principle 8: *SMEs internationalization programs must be designed to address the existing barriers differently for SMEs that are not yet internationalized and that already have international operations.*

→ **Recommendations:**

It is important to recognize that the impact of internationalization barriers and their importance vary depending on the stage of internationalization of the firm (Alvarez, 2004). While for SMEs that are already international, some obstacles may hinder international growth, for SMEs that have not yet internationalized, some obstacles may even dissuade them from engaging (Damen and Igler, 2021).

For SMEs that are not yet internationalized:

- *Break down information barriers by providing reliable data and effective communication channels*. These barriers may result from limited information on market localization or lack of reliable data on international markets.

- *Offer financial support and in-kind services to overcome personnel barriers*. Identifying foreign markets and devising an appropriate market entry strategy can be fraught with time and resource constraints. The increased workload involved in doing business internationally can also be overwhelming, especially if an SME's staff lacks experience in dealing with the necessary documentation, logistical arrangements, and communication with foreign customers.
- *Help reduce financial barriers through direct and indirect measures*. Financial barriers can occur when SMEs do not have the resources to explore new markets and adapt their marketing strategies to international markets, to finance the investments necessary to start an international business, and to insure products or assets in foreign markets.
- *Remove marketing barriers by offering assistance*. Assistance can take the form of organizing or supporting international promotional activities and identifying reliable foreign partners and appropriate distribution channels.
- *Provide incentives for SMEs to focus on specific, well-defined niches*. Domestic SMEs are likely to face intense competition in foreign markets, both from established domestic companies and from large MNCs. This may discourage SMEs from entering foreign markets for fear that their domestic competitive advantage may be lost abroad due to more complicated and intense competitive scenarios.
- *Raise SMEs' awareness of the importance of engaging in* GVCs. This can be done by making SME internationalization a central part of the development strategy and providing practical information on the benefits of participating in GVCs and concrete assistance in accessing them.

For SMEs that already have international operations:

- *Engage in FTAs and familiarize exporting SMEs with the provisions of new and existing FTAs.* In order to reap all the benefits associated with FTAs, exporting SMEs must not only fully understand the provisions of each FTA and the schedules for tariff concessions, but also become sufficiently familiar with the procedures required for issuing certificates of origin and the requirements associated with rules of origin.
- *Reduce information barriers to obtaining government contracts*. Many of these barriers arise from the unique characteristics of public procurement, such as the complexity of procedures, the amount of paperwork required for applications, and insufficient access to information about business opportunities. In addition, language differences can also be a barrier for SMEs, as public procurement tenders are often published in the local language, requiring additional investment for SMEs.
- *Provide support to overcome human resource barriers resulting from cultural differences*. Management and employees working abroad must be trained in the language and customs of the foreign country to avoid mistrust between the SME and the foreign partner.
- *Help SMEs already operating abroad overcome a number of marketing barriers*. These include adapting promotional efforts to foreign markets, difficulties in offering technical and after-sales services, difficulties related to excessive transportation and insurance

costs, and difficulties in shipping inventory abroad, as well as difficulties in accessing new foreign customers and potential partners to expand foreign business.

- *Assistance in overcoming certain procedural obstacles*. These obstacles include difficulties in collecting payments from abroad in a timely manner, enforcing contracts, and resolving disputes.

The principles and accompanying recommendations below are "optional" at the development phase and should be adopted if there is need.

Principle: *SMEs, in particular the micro and small sized ones, can be clustered to attain the maximum benefit from internationalization efforts.*

→ **Recommendations:**

Suppliers and related institutions that cluster around universities, principles bodies, think tanks, and public and private companies that provide technical support are called clusters. Companies in a cluster produce similar or related goods or services and are supported by a number of specific institutions. Innovation-oriented companies that take advantage of an integrated support system and dynamic business networks make up the successful clusters. Clusters improve competitiveness through joint purchasing of inputs, joint advertising, shared equipment, and support organizations. Literature confirms the increase in exports as a result of clusters (Semnani, Dadfar, and Brege (2015) for Iran and Tambunan (2009) for Indonesia).

The UNIDO provides services aimed at improving the competitiveness of firms through clustering and networking, reducing costs, and increasing productivity while building sustainable supplier networks and developing new markets. Based on clustering projects implemented in various countries, UNIDO has developed a methodology for formulating and implementing cluster development projects. Based on the UNIDO methodology, the following recommendations for clustering are provided:

- *Analyze and determine the most effective opportunities and strategies for industry clusters.* Each country has its own structure. Different approaches are necessary. Countries need to determine the most effective cluster system that fits their industrial structure.
- *Select the clusters*. A well-designed and participatory selection process based on well-defined criteria is a prerequisite for a successful initiative, as it allows the identification of those clusters where the impact of the planned activities can be maximized given the time and resources available.
- *Conduct a diagnostic study*. The cluster must be analyzed for strengths, weaknesses, opportunities, and threats before designing the actions.

- *Set the vision and action plan. after the diagnostic study, the cluster stakeholders should set a common vision and development strategy*. Then the roadmap or action plan should be created.
- *Modernize the business operations of SMEs*. The government would work with the cluster stakeholders to reduce the operational and marketing costs and develop new markets through joint actions.
- *Implement.* Clusters should begin to collaborate in the management and coordination of activities outlined in the action plan, including the establishment of horizontal and vertical networks.

Principle: *To reduce public resources waste, support for the internationalization of* MEs *can be granted in specific sectors only.*

→ **Recommendations:**

Around the globe, there are some policy frameworks that target even the smallest businesses for internationalization. The SBA, discussed in Chapters 1 and 2 of this report, is one such policy framework with the overall goal of reducing administrative burdens, promoting entrepreneurship, and improving access to finance and international markets. However, for many OIC countries, this may not be the right path. In the case of the EU, supporting microenterprise internationalization can make sense in many cases because EU markets are interconnected, overarching rules and regulations are similar, and the Union shares access to better infrastructure and educational opportunities. In the case of OIC countries, especially those with limited public resources, a better strategy would be to be selective in the internationalization of MEs. Corresponding recommendations can be found below:

- *Determine the sectors that are conducive to microenterprise internationalization*. This can be done through in-depth research, or it may have already been done in the country's national development plans. Both supply-side and demand-side factors should play a role in this determination. Supply-side factors include, for example, the level and quality of the country's human resources, natural resource endowments, or the type of business that favors high value-added at a small scale. On the demand side, examples include the global popularity of the product/service offered or the potential for GVCs.
- *Determine the criteria for selecting* MEs *in these sectors*. High-growth MEs with 5-9 employees tend to be more productive and younger and are therefore good candidates according to the EU (2022). Other criteria can be developed depending on the needs of each country.
- *Determine the scope of policies to be mobilized*. These may also change depending on the sectors selected and the general conditions of the country and should be determined accordingly.

Principle: *Tax regulations can be adjusted to maximize the benefits of SME internationalization.*

→ **Recommendations:**

In many countries, tax procedures for SMEs remain excessively time-consuming. Smaller companies may benefit from lower tax rates and exemptions in most of these countries. However, some procedures remain cumbersome, limiting companies' ability to grow and postpone their access to global markets.

This is the case in Poland, for example (Goujard and Guerin, 2021). The WB's widely used Doing Business indicators show that paying taxes takes longer in Poland than in other OECD countries, despite the increasing digitization of tax procedures and pre-filling of information in tax returns where available. In particular, the system of reduced tax rates, VAT remains overarching - despite its ongoing simplification. The social security contributions are also paid in a time-consuming manner.

To alleviate these type of tax problems, the following measures can be adopted:

- *Review tax expenditures and regulatory exemptions for smaller firms and envisage smoothing their effect once firms grow*. Special tax regimes for small and initially unprofitable firms, especially in a country with relatively high informality, can ease tax compliance and related fixed costs, particularly burdensome for SMEs (OECD, 2015). However, reduced rates may also lead to misreporting of taxable income (Bergner et al., 2017), which requires smoothing as the firm grows internationally.
- *Streamline administrative procedures*. For this purpose, e-procedures can be developed to help tax compliance. Electronic invoicing systems can be adopted on a large scale across the country to allow the businesses to issue and receive invoices that are instantaneously transmitted to the authorities.

3.2 Phase 2: Implementation

Each OIC country has a different SME structure and there are different trade barriers for SMEs in these countries. Therefore, the principles and recommendations listed below for the implementation of programs are not in any particular order. Policy makers need to prioritize according to the needs of their SMEs.

Principle: *Outreaching and awareness raising campaigns are required to be conducted on a regular basis.*

→ **Recommendations:**

Major awareness raising campaigns are vital for the internationalization. SMEs need to be made aware of the benefits of going global and have more and easier access to public support (EC, 2010). Therefore, in order to reach a larger audience at events and to get in touch with SMEs in general, it is recommended to proactively try to approach SMEs on a regular basis using different measures. A few examples of these measures are:

- *Mobilize academic resources and cooperation with universities*. Universities are generally in need of demonstrating research impact, thus joint projects with industrial partners are popular, particularly within the OIC where SMEs happen to be a major part of the business enterprises.
- *Leverage existing relationships for awareness raising*. There are logistics and transportation companies, trade intelligence providers, multinational firms, and other service providers, who are generally interested in collaborations that may lead to new SME customers.
- *Connect with SMEs by working with intermediaries such as networks, professional bodies and associations*. For example, most countries have chambers of commerce, which often maintains databases of companies that can be used under certain conditions, such as to send invitations to events.
- *Contact SMEs directly*. SMEs are naturally more responsive in one-to-one interactions. The time invested into face-to-face meetings with SMEs pays off because invariably the scope for collaboration is often identified. The challenge, however, is the prerequisite investment and effort in setting up the direct contact.

Principle: *Cooperation and experience sharing events between the stakeholders of SME internationalization must be provided and maintained, domestically and internationally.*

→ **Recommendations:**

In many countries, there are various institutions that support the internationalization of SMEs. Coordination is very important to allocate resources efficiently. There would be conflicts in terms of the programs they offer. Also, the beneficiary SMEs for each program should be selected in a coordinated manner so that there is no overlap.

Each institution involved in supporting SME internationalization has its own expertise and experience gained through its SME support programs. It is important that they share this experience with each other. In addition, an international exchange of experiences would be beneficial to improve SME internationalization support programs.

- *Strengthen cooperation between SME internationalization stakeholders*. An agency responsible for coordinating all agencies and support programs is necessary.

- *Organize events to share experiences within public agencies*. Different funding programs bring different experiences to institutions. Sharing these experiences between government institutions with well-developed organizations is necessary.
- *Participate in experience sharing events between OIC member*s. 57 OIC members have different support programs that would be an asset for the governmental organizations of the other countries that are responsible for the internationalization of SMEs.
- *Participate in events to share experiences of international institutions*. Institutions supporting SME exports face different cases and find different solutions that can be an example for the other countries. Therefore, participation in such events is valuable.

Principle: *Managerial and human resources of the SMEs need to be brought in line with the requirements of successful internationalization.*

→ **Recommendations:**

The influx of well-educated and experienced workers to SMEs is contingent on the development of robust training organizations and national training networks (ADB, 2015). Graduates enters the labor market seeking employment in both small and large companies These new workers need training geared toward participation in global markets (e.g., language courses), especially if the companies that employ them are SMEs. In addition, the high degree at which skills become outdated makes it difficult for older workers to find jobs, while demographic aging requires better employability and working conditions for older workers. Automation and digitization are expected to further diminish demand for blue-collar and recurring tasks and increase demand for social and problem-solving skills to ensure complementarity between machines and workers (OECD, 2018). Therefore, improved lifelong learning is essential. Yet, there exists a lack of awareness. Furthermore, it is well known that on-the-job training is particularly costly for SMEs. There is a smaller workforce and fewer resources. Retention rates are meager, and the risk of stealing by other companies is abundant.

To bring leadership and human resources to exporting SMEs, ADB (2015) suggests the following:

- *Devote specific funds to vocational education and training*. The governments must develop and support all levels of education from elementary school to highly qualified higher education and vocational training.
- *Certify public and private training providers to ensure high quality education*. To ensure that students receive a high-quality education, the government should implement a system of institutional certification to guarantee that a proper training program is provided through high quality teaching.
- *Provide a training system that satisfy the needs of the export industry*. The training system must provide skills for key sectors and try to anticipate the skills needed for new and

emerging sectors. Many SMEs produce for large companies and some directly export. Therefore, they are in need of competent workers to fill their positions.

- *Adapt training programs to the unique features of SMEs*. Adaptable training opportunities should be contemplated by SMEs themselves as well as by public and private training providers. For example, training can be offered on a part-time basis during slow times of the week or month. Language or communication courses can be offered to improve relations with foreign partners.
- *Bring training into companies rather than sending workers for training*. The traditional way to provide training is to send workers to training programs. However, another option is to bring instructors into the company, so that time can be saved and training can focus on the specific tasks of the individual company.
- *Make sure companies know about and take advantage of training subsidies*. SMEs are often uninformed about state funded training programs, such as schooling support, vouchers, or partial cost grants. Public agencies should provide the necessary outreach to ensure that SMEs know about these programs.

Principle: *Mentoring SMEs in internationalization processes is required.*

→ **Recommendations:**

Entering the global market is a difficult task for SMEs. Information about the target market, legal and procedural requirements, and competition is necessary for SMEs to be successful. In this regard, they have to make huge investments. Given their limited resources, they must use their time and money efficiently. Mentoring services offered by the government would help SMEs overcome these problems.

- *Build mentoring capacity within the government*. The government would provide mentoring by training its staff or hiring new staff with mentoring experience.
- *Leverage private sector resources to advise SME exports*. There are export experts in the private sector who could mentor SMEs. The government would either hire these mentors or formulate a program where large companies provide mentors to SMEs.
- *Use the resources of international institutions to develop mentoring services*. International institutions provide capacity building services to governments. A capacity building program for mentoring SMEs would be developed to enter the global market.
- *Establish mentoring services within the COMCEC*. There are two ways in which the COMCEC could participate in mentoring. (i) The COMCEC would establish a mentoring capacity to advise SMEs in member countries. (ii) COMCEC members would support each other and also deploy their mentors in other member countries.
- *Promote mentoring services to SMEs willing to export*. In establishing a mentoring capacity, governments should promote the benefits to SMEs in order to fully utilize the capacity.

Principle: *Availability of and access to foreign market information must be provided by designated institutions/platforms.*

→ **Recommendations:**

Although SMEs with sufficient capacity would be ready to export, it is still difficult for them to penetrate the global market. It would encourage SMEs to have access to government support in terms of information on foreign markets and a low-procedure environment to export their goods efficiently with little time and cost. Below are several recommendations for providing market information to SMEs:

- *Organize trade shows and support SME participation in overseas trade shows*. Trade shows and similar international gatherings are a good opportunity for SMEs to promote their products and build a network. Government agencies should organize trade shows by inviting potential overseas trading partners and providing financial support for SMEs to participate in these overseas organizations.
- *Establish a one-stop store for exporting*. SMEs have limited resources to seek information on exporting. Although the government provides the information, SMEs cannot get all the information from various sources. A one- stop store that is available to SMEs and well-advertised would be very useful to them.
- *Provide information on trade and investment agreements*. FTAs, RTAs, and investment agreements provide significant trade benefits to SMEs. It is much easier to provide SMEs with this information as it is readily available.
- *Negotiate trade agreements with SMEs in mind.* Specific closures for SMEs in bilateral or regional agreements would make trade easier for SMEs.
- *Provide information on non-tariff barriers*. Given the large number of agreements and the WTO, tariffs are already low for many goods. However, non-tariff barriers such as product principles and other non-standard regulations are the biggest obstacles for exporters. It is important for SMEs to understand these principles before exporting.
- *Implement efficient trade procedures and allow trade facilitation for SMEs*. There are several steps for exporting, such as documentation, inspections, and procedures. Special trade facilitation for SMEs would encourage them to export as both the cost and time to export would decrease.

Principle: *Availability of and access to finance/credit must be provided by designated institutions/platforms.*

→ **Recommendations:**

IFC (2011) is still used as a general policy guide for SME finance around the world. Accordingly, a thorough understanding of finance constraints of SMEs is necessary to prioritize and sequence.

When it comes to SME internationalization, in previous sections of this report, access to finance has been cited as one of the main obstacles for most SMEs. This is because the financing needs of SMEs seeking to internationalize can be even greater than for firms concentrated on the domestic market.

Although some firms are "born global," most mature domestically first and then venture into exports. The costs of engaging in exporting can be massive and include finding new buyers, building distribution networks, adapting production to foreign demand, and complying with the foreign country's product principles. SME exporters must also worry about receiving payments from foreign buyers and are strained to consent to longer payment times, which can drain scarce working capital. Companies that supply large export firms also incur significant costs, as they must invest in machinery and product expansion to meet buyers' principles and have the working capital to meet tight delivery deadlines (ADB, 2015).

Therefore, SMEs that internationalize need to have adequate sources of financing that include (i) loans for the purchase and leasing of capital goods, (ii) trade finance, (iii) supply chain finance, (iv) market and product finance, and (iv) working capital finance. In this process, governments as well as SMEs themselves and international organizations such as COMCEC can play a key role in ensuring better access to finance. In the light of this discussion, the following are the recommendations[15]:

- *Develop systems to finance internationalization*. In this process, large companies must take an active role because of their extensive supplier networks amongst SMEs. Such a set up would require the development of ICT related to supply chains, as technology should be capable of tracking deliveries and invoicing through a large company's procurement system. As for the role of governments, they can bring stakeholders together, for example, through an export-import bank or an industrial development agency. In addition, government guarantees may be required.
- *Ensure that different options of trade finance are available to SMEs*. SMEs that internationalize need financing for exports and imports. Yet, financial institutions may be hesitant to finance these trade transactions because of the heightened risk in cross-border activities with buyers or suppliers who have not yet established strong business relationships. Trade finance support, usually in the form of a trade transaction guarantee, can help overcome this obstacle. Pre-internationalization loans for SMEs are another chief type of trade finance.
- *Make sure SMEs are sensitized to sources of trade finance*. A good place to start is the SME's bank, but there may be other sources, such as other commercial banks, public exim banks, or government trade promotion agencies.

[15] See ADB (2015) for intricate details of these recommendations.

- *Work with international organizations that support trade finance*. The ADB, for example, is a major player in trade finance for many of the OIC countries, including access for SMEs to these finance opportunities.
- *Develop crowdfunding frameworks*. The birth of the web-based payment systems has led to an eruption of crowdfunding in recent years. Crowdfunding allows individuals to donate, lend or invest tiny amounts of money for projects. Therefore, SMEs should be made aware of crowdfunding opportunities. While crowdfunding sidesteps traditional funding sources such as banks and stock markets, it also requires appropriate rules and regulations to ensure that individuals identify the investment risks and are safeguarded from dishonest actors. In this regard, appropriate disclosure processes need to be put in place and enforced.
- *Reduce the cost of screening credible* borrowers. A major obstacle to SME financing is the high-costs banks incur in screening prospective borrowers. To overcome these difficulties, the government can develop a credit rating system for SMEs. This will ensure that SMEs can develop a credit history that banks and other financiers can review and use as a means of assessing creditworthiness.
- *Ensure a proper legal system and laws to enforce loan agreements*. This gives banks and other lenders the certainty that they can seize and liquidate collateral in the event of default, and lets borrowers know that they must honor their loan agreements.
- *Encourage SMEs to prepare proper financial statements*. These financial statements help banks understand the profitability of businesses and the likelihood that they will repay their debts. Many SMEs do not prepare financial statements at the desired quality, either because they are unable to do so or because the owner is too busy to devote time to this task. Help for SMEs in this area can be provided by private accountants or by programs offered by SME agencies.

Principle: *Modernization and digitalization of governmental infrastructure and SME base need to be addressed.*

→ **Recommendations:**

The transmission of sophisticated digital technologies is inadequate, especially among SMEs (Goujard and Guerin, 2021). However, there is indication that companies that use online tools are less likely to stay domestic and when they export, they are more likely to do so to more countries and generate a larger share of their sales from exports. Developing the use of powerful digital tools would boost efficiency and create new jobs, especially among startups (DeStefano et al., 2019). The literature also suggests that access to high-speed internet would raise the ability of companies to discover the ideal partners abroad (Malgouyres et al., 2019). Below are the recommendations in this regard:

- *Expand existing programs for SMEs with an emphasis on trainin*g. Improving workers' digital skills can assist SMEs in fortifying their position in GVCs. This happens because they become capable of specializing in higher value-added activities or participating in higher value-added segments in these value chains.

- *Encourage SME participation in e-com*merce. This would help boost their export capacity. Available data suggest that digital trade is becoming increasingly important, especially in the aftermath of COVID-19 pandemic. In this regard, SMEs are well situated to gain from business-to-consumer trade.
- *Employ and exchange big data between the private and public sectors*. This could help promote the internationalization of SMEs and the advent of new products, processes and management methods, especially via the use of AI and the IoT.
- *Promote digital security across SMEs*. This would help to enhance the spread of digital technologies. Privacy and digital security concerns are frequently mentioned as barriers to the adoption of novel digital technologies and participation in e-commerce, especially for SMEs.
- *Promote the use of modern digital tools*. The government should increase partnership with businesses. Resilient intermediates that provide brokerage, advisory, or mentoring services can help enhance the uptake and efficiency of such programs, as intricate procedures can limit uptake by SMEs. Digital hubs can be established to encourage digital innovation and transfer of knowledge to SMEs.

Principle: *Standardization and certification are required.*

→ **Recommendations:**

SMEs need to understand the principles required for their products in target countries. To prove the principles of the products, certifications are required for many goods. Governments would assist SMEs with standardization and certification as follows:

- *Provide market- and product-specific standardization and certification requirements*. It is costly and time-consuming for SMEs to meet target country requirements for principles and certifications. The government would support MSEs by providing the necessary information through a well-designed online portal. There are many examples that could be used.
- *Guide SMEs to improve their products according to the required principles and certifications*. When SMEs are ready to export, they are faced with standardization and certification requirements. It is very difficult for them to understand the procedures. They would benefit greatly from semi-formalized government support.
- *Take advantage of support from international institutions*. There are international institutions that provide consulting services for SMEs' standardization and certification requirements for export. Governments need to refer their SMEs to these institutions for advice.

- *Get support from COMCEC members*. The COMCEC is a large community of governments that have expertise in exporting certain goods. Therefore, the community would help each other in standardization and certification to increase exports of SMEs in the region.

Principle: *SMEs need branding support.*

→ **Recommendations:**

Branding is defining a unique name and image for a product or service in the minds of consumers and binding a customer to a supplier. Wendelin, (2004) explains that brand reputation has a psychological impact on purchase. Differentiation from competitors is one of the most important benefits of branding.

Penetrating international markets is a difficult process that helps products and services become known worldwide, leading to faster adoption.

- *Build a national brand*. It is more difficult for SMEs to create their own brands. Instead, the government should create a national brand and group SMEs under the national brand.
- *Include the SMEs' products in the national brand*. SMEs should be grouped under the national brand based on a list of criteria.
- *Offer branding support to SMEs.* It is difficult for SMEs to build a national brand on their own, and it is costly to hire a consulting firm. The government should provide mentors to SMEs to increase imports.
- *Promote the national brand, which includes SMEs' products in the international market*. The government should promote the national brand around the world.
- *Ensure that SMEs select appropriate destinations for their branded products*. Not every product may be in demand in every market. The government should provide the necessary guidance.
- *Help SMEs promote their brands at a variety of national, regional and international industry events.* SMEs cannot promote their brands themselves due to time and financial constraints. Governments should support them to participate in international industry events around the world to showcase their brands.
- *Make sure that the beneficiary brand manufacturers meet the Certified Brand Program requirements related to ISO 20671 "Brand Evaluation".* It is much easier to penetrate global markets when SMEs obtain the necessary certifications.
- *Promote the target industry's products in the domestic, regional and international markets* by building export support networks and linkages between target industry enterprises.

3.3 Phase 3: Assessment

This section presents the principles and recommendation for the assessment of newly developed and continuing programs.

Principle: *Identification of internal and external evaluators/auditors is required.*

→ **Recommendations:**

Governments are helping SMEs overcome export barriers by developing numerous programs. Applications for these programs must be evaluated and government capacity is limited to process them. Building capacity within the government by training the appropriate personnel or employing private sector/college evaluators would be good support for the government. There is also a need to review current programs and participants, which also requires external/internal capacity. There are the following recommendations for selecting evaluators and reviewers:

- *Collect applications through an open solicitation for internal and external evaluator positions*. With an open call for applications, it is possible to create a pool of evaluators and examiners that can be used as needed.
- *Ask large companies for assistance*. Larger companies usually have expertise in exporting and would assist the government with assessments and audits.
- *Ask universities for support*. Universities would support the government by providing a list of professionals who are knowledgeable in the desired area.
- *Build capacity within the government*. It would be helpful to select the appropriate government staff and train them as evaluators and auditors.
- *Leverage the support of international institutions*. International organizations would assist governments in capacity building.

Principle: *Impact analysis of implemented programs must be conducted regularly and shared transparently with public.*

→ **Recommendations:**

Evaluating the impact of funding programs is very important to better allocate resources. They help the government design better programs each year, and SMEs receive better services from the government when programs are improved based on the results of the impact assessment.

- *Conduct regular impact assessments for each funding program*. Regular evaluation is necessary to further improve the programs.
- *Evaluate the impact of each program on SME exports*. some countries conduct regular impact assessments, but they do not consider the impact of the programs on exports.

- *Redesign the program if the target and outcome do not match in a given period*. Continuous evaluation of programs allows the government to identify program weaknesses. If a program does not meet its goals over a period of time, policymakers should redesign it.
- *Regularly publish the results of the impact assessment for each program*. Impact assessment allows policymakers to make decisions about programs. However, for accountability reasons, they must also be published regularly to the public.

4 LIST OF PRINCIPLES AND RECOMMENDATIONS

Fundamental Components

Principle: *MSMEs are required to operate formally.*

- Effectively enforce regulations requiring registration of informal businesses.
- Provide benefits for formalization and penalize informality.
- Create better frameworks for the formal sector.
- Use digitalization in business registration.
- Introduce a simplified legal system for startups.
- Use policy instruments for an incentive-based formalization mechanism.

Principle: *Firm-level data on SME exports must be collected and published regularly.*

- Collect data on SME export activity in accordance with international principles.
- Involve customs and other relevant institutions in the SME export data collection process.
- Publish SME export data regularly.

Principle: *Support jungles need to be avoided.*

- Set up a central electronic repository for past and existing support programs.
- Appoint a liaison in each institution that can give support to SMEs.
- Before starting to develop a new program, consult the repository first.

Principle: *Institutional framework necessary for successful utilization of regional and international funds must be operational.*

- Contact international agencies regarding the availability of funds.
- Develop capacity in SME support institutions for international funds.
- Inform SMEs of the appropriate application requirements.
- Guide SMEs in applying.

Principle: *Engagement in FTAs, RTAs and bilateral agreements that specifically address SME internationalization is required.*

- Have more generous reductions in tariff barriers for SMEs.
- Where possible, make exemptions or decrease the stringency of non-tariff barriers, in particular TBT/SPS measures, for SMEs.
- Have extra provisions in trade agreements that eases the burden of information collection for SMEs.

Principle: *Trade facilitation measures are required to be specifically geared towards SMEs.*

- Plan and design clear strategies to help SMEs comply with customs regulations.
- Provide SME-specific procedural guidance for transparency and predictability.
- Simplify customs procedures.

Phase 1: Development

Principle 1: *Legal basis is required.*

- Clearly state the objectives of SME-related laws and regulations.
- Adopt a uniform SME definition.
- Plainly define the responsibilities of central and local public agencies.
- Define the basic policy areas.
- Take the necessary legislative, fiscal and financial steps.
- Regularly monitor the performance of policy support systems.

Principle 2: *SME internationalization must be made a part of binding government plans and documents.*

- Develop an SME strategy.
- Set out the strategy in a binding multi-year document.
- Position SME internationalization policies in the context of broader policy frameworks.

Principle 3: *If there is none, the government must appoint or establish a responsible body to orchestrate SME internationalization.*

- Dedicate a ministry for SMEs.
- Establish an SME agency.

Principle 4: *Coordination and communication mechanisms between the stakeholders need to be in place and operational.*

- Design and implement a governance structure across different government agencies.
- Provide clarity to SMEs about the policy framework.

Principle 5: *The institutional framework must be supported by necessary financial means and government guarantees.*

- Offer trade finance through specialized institutions.
- Make SMEs aware of the sources of trade finance.
- Offer credit guarantees for SME lending.
- Set a suitable rate for the guarantee.
- Prevent political meddling in loan guarantees.

Principle 6: *Regular training programs that are designed towards improving managerial and human resources skills of the government employees who are (will be) responsible from SME internationalization programs are required.*

- Design training programs for the newly hired government employees.
- Design regular training programs for existing staff.
- Participate in international institutions' training programs.
- Take advantage of other COMCEC members' support for training.

Principle 7: *To be eligible for support, SMEs need to be sorted in terms of their capacity and potential for internationalization.*

- Transfer the responsibility of designing a sorting system to the core SME institution.
- Create questions to sort SMEs and identify their needs.
- Supplement the questions with site visits.
- Suggest that the sorting system be voluntary.
- Share the results of the rating system with other stakeholders.
- Involve SMEs in export assistance programs based on the results of the sorting system.

Principle 8: *SMEs internationalization programs must be designed to address the existing barriers differently for SMEs that are not yet internationalized and that already have international operations.*

For SMEs that are not yet internationalized:

- Break down information barriers by providing reliable data and effective communication channels.
- Offer financial support and in-kind services to overcome personnel barriers.
- Help reduce financial barriers through direct and indirect measures.
- Remove marketing barriers by offering assistance.
- Provide incentives for SMEs to focus on specific, well-defined niches.
- Raise SMEs' awareness of the importance of engaging in GVCs.

For SMEs that already have international operations:

- Engage in FTAs and familiarize exporting SMEs with the provisions of new and existing FTAs.
- Reduce information barriers to obtaining government contracts.
- Provide support to overcome human resource barriers resulting from cultural differences.
- Help SMEs already operating abroad overcome a number of marketing barriers.
- Assistance in overcoming certain procedural obstacles.

Principle (Optional): *SMEs, in particular the micro and small sized ones, can be clustered to attain the maximum benefit from internationalization efforts.*

- Analyze and determine the most effective opportunities and strategies for industry clusters.
- Select the clusters.
- Conduct a diagnostic study.
- Set the vision and action plan. after the diagnostic study, the cluster stakeholders should set a common vision and development strategy.
- Modernize the business operations of SMEs.
- Implement.

Principle (Optional): *To reduce public resources waste, support for the internationalization of* MEs *can be granted in specific sectors only.*

- Determine the sectors that are conducive to microenterprise internationalization.
- Determine the criteria for selecting MEs in these sectors.
- Determine the scope of policies to be mobilized.

Principle (Optional): *Tax regulations can be adjusted to maximize the benefits of SME internationalization.*

- Review tax expenditures and regulatory exemptions for smaller firms and envisage smoothing their effect once firms grow.
- Streamline administrative procedures.

Phase 2: Implementation

Principle: *Outreaching and awareness raising campaigns are required to be conducted on a regular basis.*

- Mobilize academic resources and cooperation with universities.
- Leverage existing relationships for awareness raising.
- Connect with SMEs by working with intermediaries such as networks, professional bodies and associations.
- Contact SMEs directly.

Principle: *Cooperation and experience sharing events between the stakeholders of SME internationalization must be provided and maintained, domestically and internationally.*

- Strengthen cooperation between SME internationalization stakeholders.
- Organize events to share experiences within public agencies.
- Participate in experience sharing events between OIC members.
- Participate in events to share experiences of international institutions.

Principle: *Managerial and human resources of the SMEs need to be brought in line with the requirements of successful internationalization.*

- Devote specific funds to vocational education and training.
- Certify public and private training providers to ensure high quality education.
- Provide a training system that satisfy the needs of the export industry.
- Adapt training programs to the unique features of SMEs.
- Bring training into companies rather than sending workers for training.
- Make sure companies know about and take advantage of training subsidies.

Principle: *Mentoring SMEs in internationalization processes is required.*

- Build mentoring capacity within the government.
- Leverage private sector resources to advise SME exports.
- Use the resources of international institutions to develop mentoring services.
- Establish mentoring services within the COMCEC.

- Promote mentoring services to SMEs willing to export.

Principle: *Availability of and access to foreign market information must be provided by designated institutions/platforms.*

- Organize trade shows and support SME participation in overseas trade shows.
- Establish a one-stop store for exporting.
- Provide information on trade and investment agreements.
- Negotiate trade agreements with SMEs in mind.
- Provide information on non-tariff barriers.
- Implement efficient trade procedures and allow trade facilitation for SMEs.

Principle: *Availability of and access to finance/credit must be provided by designated institutions/platforms.*

- Develop systems to finance internationalization.
- Ensure that different options of trade finance are available to SMEs.
- Make sure SMEs are sensitized to sources of trade finance.
- Work with international organizations that support trade finance.
- Develop crowdfunding frameworks.
- Reduce the cost of screening credible borrowers.
- Ensure a proper legal system and laws to enforce loan agreements.
- Encourage SMEs to prepare proper financial statements.

Principle: *Modernization and digitalization of governmental infrastructure and SME base need to be addressed.*

- Expand existing programs for SMEs with an emphasis on training.
- Encourage SME participation in e-commerce.
- Employ and exchange big data between the private and public sectors.
- Promote digital security across SMEs.
- Promote the use of modern digital tools.

Principle: *Standardization and certification are required.*

- Provide market- and product-specific standardization and certification requirements.
- Guide SMEs to improve their products according to the required principles and certifications.
- Take advantage of support from international institutions.
- Get support from COMCEC members.

Principle: *SMEs need branding support.*

- Build a national brand.
- Include the SMEs' products in the national brand.
- Offer branding support to SMEs.
- Promote the national brand, which includes SMEs' products in the international market.
- Ensure that SMEs select appropriate destinations for their branded products.
- Help SMEs promote their brands at a variety of national, regional and international industry events.
- Make sure that the beneficiary brand manufacturers meet the Certified Brand Program requirements related to ISO 20671 "Brand Evaluation".
- Promote the target industry's products in the domestic, regional and international markets.

Phase 3: Assessment

Principle: *Identification of internal and external evaluators/auditors is required.*

- Collect applications through an open solicitation for internal and external evaluator positions.
- Ask large companies for assistance.
- Ask universities for support.
- Build capacity within the government.
- Leverage the support of international institutions.

Principle: *Impact analysis of implemented programs must be conducted regularly and shared transparently with public.*

- Conduct regular impact assessments for each funding program.
- Evaluate the impact of each program on SME exports.
- Redesign the program if the target and outcome do not match in a given period.
- Regularly publish the results of the impact assessment for each program.

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ANNEX I - SME Internationalization Survey

Objectives of the Study

*This Survey is a part of the project entitled **"Increasing Internationalization of Small and Medium-Sized Enterprises (SMEs) in OIC Member Countries"**, executed by TEDUTRC, contracted by The Standing Committee for Economic and Commercial Cooperation (COMCEC) of the Organization of the Islamic Cooperation (OIC).*

The replies to the survey questions will enable the research team to classify the current status of the OIC Member States with regard to internationalization of SMEs.

Your input is essential for this research and we will appreciate your contribution.

*If you have any questions or queries, please contact TEDUTRC via e-mail at **trc@tedu.edu.tr**.*

Thanking you in advance for your participation.

Survey Questionnaire for Private Companies

Section 1. General Company Information

1. In what year was your company established?

2. Does your company have foreign shareholders?

☐ Yes

☐ No

3. Indicate the current number of employees in your company:

4. What is your main product?

☐ Food and beverages

☐ Tobacco

☐ Textiles

☐ Garments

☐ Leather

☐ Wood and wood products

☐ Paper

☐ Furniture

☐ Handicraft

☐ Agriculture products

☐ Machinery and Equipment

☐ Chemical & Chemical products

☐ Rubber & plastic products

☐ Others (please specify) ……………………….

5. Has your company ever engaged in exporting?

☐ Yes **Go to Question 6**

☐ No **Go to Question 7**

6. Indicate the current market share (domestic vs. export) of your products, both in terms of the amounts of products as well as total value sales. (The shares of domestic sales and exports must add up to 100)

	Amounts of Products (%)	Value of Sales (%)
Domestic Market	______%	______%
Export	______%	______%
	100%	100%

7. Do you have plans to export in the future?

☐ Yes **Go to Question 9**

☐ No **Go to Question 8**

8. Please indicate the reasons for not planning to export in the future (You may choose more than one).

☐ Have no intention

☐ The domestic market is more profitable.

☐ Satisfied with the current business status

☐ Domestic market growth has more potential.

☐ Shortage of financial resources for exporting

☐ Shortage of human resources

☐ Do not have enough information about export markets

☐ Has no knowledge and information about the export procedure

☐ Afraid of international competitors

☐ No confidence about products (principles/specification/design/...)

☐ No clue about how to initiate export

☐ Others (please specify) ……………………………………………………………

9. What effort(s) have you made to export? (You may choose more than one)

☐ Have done nothing yet

☐ Getting to understand the export procedure

☐ Searching and collecting information about export markets and export opportunity

☐ Have made an enquiry to potential foreign customers

☐ Made contact with foreign/domestic partners

☐ Have started to produce ordered products

☐ Preparing export contract

☐ Others (please specify) ……………………………

10. Where did you obtain the information on the opportunity of your export target markets? (You may choose more than one.)

☐ Central Government agencies

☐ Local Government agencies

☐ Business partners/associates

☐ Business association

☐ Overseas family/relatives

☐ Newspaper, television and internet media

☐ Business Website

☐ International market-related information portal

☐ Contact made by the buyer

☐ Others (please specify) ……………………………

Section 2. Export Barriers (All respondents)

Below is a series of barriers to export. Indicate how detrimental each barrier you face (or you perceive) in exporting.

1. Perception of Internal Barriers to export

Type of Barriers		Not at all Important [1]	Slightly Important [2]	Important [3]	Fairly Important [4]	Extremely Important [5]
Informational barriers						
IB1	Limited information to locate/analyze potential markets					
IB2	Unreliability, inaccessibility and high cost of data regarding export markets					
IB3	Difficulty in identifying business opportunities in export markets					
IB4	Difficulty in contacting foreign buyers/customers					
Human resource barriers						
IB5	Inadequate number of personnel and/or unprofessional personnel for export					
Financial barriers						
IB6	Shortage of funds to finance working capital for internationalization (such as for production, research & traveling)					
IB7	Shortage of funds to finance the investment needed for internationalization					
IB8	Shortage of insurance for internationalization (including export products and assets abroad)					
Product and price barriers						
IB9	Difficulty in developing/adapting new products for export markets					
IB10	Difficulty in meeting foreign product quality/principles/ specifications					
IB11	Difficulty in matching competitors' prices in export markets					
Distribution and logistics barriers						
IB12	Difficulty in establishing and using distribution channels in export markets					
IB13	Excessive transportation and insurance costs					

IB14	Difficulty in offering technical and after-sale services					
IB15	Difficulty in the storage of export products					

2. Perception of External Barriers to Export

Type of Barriers		**Not at all Important [1]**	**Slightly Important [2]**	**Important [3]**	**Fairly Important [4]**	**Extremely Important [5]**
Home Governmental barriers						
EB1	Lack of home government support/incentives					
EB2	Unfavorable home rules and regulations (such as no diplomatic relations and export restriction)					
EB3	Underdeveloped payment mechanisms related to foreign trade					
Foreign Governmental barriers						
EB4	Restriction on foreign ownership and on the movement of business representatives (difficulty in obtaining visa, quotas, duration of stay)					
EB5	Foreign governments' unequal treatment compared to domestic firms in tax					
EB6	Foreign governments' unequal treatment compared to domestic firms in business competition regulation					
Business environment barriers						
EB7	Differences in social-cultural environment					
EB8	The negative image of my country's products abroad					
Tariff and non-tariff barriers						
EB9	High tariff barriers in foreign countries					
EB10	Restrictive health, safety, environmental & technical principles					
EB11	Arbitrary tariff classification					
EB12	Unfavorable quotas and embargoes					
EB13	High competition from international competitors with preferable tariffs by regional trade agreements					
EB14	High costs in customs administration in host countries					

Section 3. Government Support Programs for Internationalization (for All respondents)

1. Have you ever participated in a governmental support program for internationalization?

☐ Yes (in which year?) ....**Go to Question 2**

☐ No **Go to Question 5**

2. How did you know about the support program?

☐ Public announcement

☐ Agency

☐ Business association

☐ Business partners

☐ Others (please specify) ....

3. Regarding the government support program, please indicate what kind of support you have obtained and how it was useful to your company's export activities.

	Support Categories	**Not Helpful [1]**	**Slightly Helpful [2]**	**Helpful [3]**	**Fairly Helpful [4]**	**Extremely Helpful [5]**
1	Market information supply					
2	Consulting experts					
3	Participate in trade fairs/exhibitions					
4	Participate in foreign-market observation tours					
5	Subsidies for export					
6	Provide funds for export					
7	Tax incentives for export					
8	Human resource training for export activities					
9	Branding for export					
10	ICT and digitalization					
11	Others (please specify)					

4. Please indicate the overall effect of the support program on your export activities?

☐Would not have started export activities without support

☐Started to export earlier because of the support

☐Have more export activities because of support

☐No immediate effect (Export would have taken place with or without support.)

☐Others (please specify) ....

5. Please indicate the reasons you have not participated in any of the support programs?

a. Not aware of the program ☐

b. Applied but not granted ☐

c. Don't have plan to export ☐

d. Difficult/complicated to apply ☐

e. Others (Please specify) .... ☐

Section 4. Funding Instruments

1. What kind of funding instruments are available in your country?

- ☐ Bank loan: short-term [less than 1 year]
- ☐ Bank loan: mid-term [1–5 years]
- ☐ Bank loan: long-term [over 5 years]
- ☐ Nonbank loan [finance company, pawnshop, etc.]: short-term
- ☐ Nonbank loan [finance company, pawnshop, etc.]: mid-term
- ☐ Nonbank loan [finance company, pawnshop, etc.]: long-term
- ☐ Factoring
- ☐ Financial leasing
- ☐ Eximbank credits
- ☐ Trade finance
- ☐ Crowdfunding
- ☐ Venture capital: short-term
- ☐ Venture capital: mid-term
- ☐ Venture capital: long-term
- ☐ Microfinance institutions
- ☐ Borrowing from family, relatives, and friends
- ☐ Borrowing from other companies: parent company
- ☐ Borrowing from other companies: others
- ☐ Public loan programs: a central government program
- ☐ Public loan programs: a local government program
- ☐ Corporate bond and debenture
- ☐ Equity finance
- ☐ Own funds
- ☐ Others [please specify]: ……………………………..

2. Have you utilized external funding for your trading business? Please click all the instruments you have used for international trade.
   ☐ Export receivables-backed financing
   ☐Inventory/warehouse receipt financing
   ☐Prepayment financing
   ☐Account receivables-backed financing
   ☐Factoring (traditional)
   ☐Reverse factoring
   ☐Forfaiting
   ☐Export credit insurance
   ☐Export credit guarantee
   ☐Exchange insurance/forward contracts
   ☐Currency options
   ☐Others
   ☐Not utilized

Section 5. Barriers to Access to Finance

1. What are critical obstacles inhibiting your fundraising? Please check relevant ones.

High lending rate	☐
Too short of loan-term	☐
Collateral/guarantee as a prerequisite for loan	☐
Complicated procedures to borrow money	☐
Strict lending policy of financial institutions	☐
Exclusive lending attitude of financial institutions, especially for new customers	☐
Others [please specify]: ……………………	☐

2. In your opinion, what are the most important government policies that improve SME access to finance? Please rate the items below.
(5: most important, 1: less important)

	1	2	3	4	5
Creation of specialized financial institution(s) for SMEs (e.g., public SME bank)	☐	☐	☐	☐	☐
Public credit guarantee schemes	☐	☐	☐	☐	☐
Interest rate subsidy for bank credit to SMEs	☐	☐	☐	☐	☐
Mandatory lending to SMEs for commercial banks	☐	☐	☐	☐	☐
Public credit bureau and/or SME credit risk database	☐	☐	☐	☐	☐
Laws and regulations on secured lending (including the creation of collateral registries to promote movable asset financing)	☐	☐	☐	☐	☐
Refinancing facility (the government provides concessional loans and guarantees through participating financial institutions)	☐	☐	☐	☐	☐
Creation of SME incubation fund (providing growth capital to seed firms, start-ups, and entrepreneurs)	☐	☐	☐	☐	☐
Support for new financing models (e.g., crowdfunding)	☐	☐	☐	☐	☐
Support for developing trade finance and supply chain finance	☐	☐	☐	☐	☐
Support for developing nonbank financing instruments (e.g., lease and factoring)	☐	☐	☐	☐	☐
Support for creating long-term financing venue for SMEs (e.g., SME capital markets (equity finance and/or bond issuance)	☐	☐	☐	☐	☐
Support for developing the venture capital industry serving SMEs	☐	☐	☐	☐	☐
Support for developing the base of professionals serving SMEs (e.g., increase the number of certified public accountants (CPAs) serving SMEs)	☐	☐	☐	☐	☐
Tax incentive schemes for priority SME sectors	☐	☐	☐	☐	☐
Support by international organizations such as EBRD/UNDP/EU	☐	☐	☐	☐	☐
Socialization programs/workshops/seminars to promote financial literacy for SMEs	☐	☐	☐	☐	☐

Survey Questionnaire for Government/International Organization

Ministry/Agency/Institution	
Respondent (Position)	

What are relevant national authorities/key national partners in deciding, coordinating, enforcing and assessing the internationalization of SMEs

☐ Ministries

☐ National trade promotion agencies/institutions

☐ Trade facilitation boards

☐ Chambers

Section 1. Government or International Organization Export Supporting Programs

1. Please provide information about the assistance program implemented by your institution to help SMEs' internationalization.

Question	**Program details**			
		PROGRAM 1	PROGRAM 2	PROGRAM 3
1	Name of the Program:			
2	Year (launched):			
3	Description:			

2. Please choose the program that you have more information.

☐Programme 1

☐Programme 2

☐Programme 3

Please answer the following questions based on your choice above

4	What kind of support does the program provide? (You may choose more than one)	a. Market information b. Consulting experts c. Participate in trade fairs/exhibitions d. ICT and digitalization e. Subsidies for exports f. Supply funds for export g. Tax incentives for export h. Human resource training for export activities i. Branding for exports j. Others (please specify)	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐
5	What information did you use to plan the program?	a. Data from SMEs' business activities b. Direction from government c. Feedback of SMEs d. Others (please specify)	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐
6	What level did the program cover?	a. National level b. Regional level c. Sectorial level d. Others (please specify)	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐
7	How did you publicize the program? (You may choose more than one)	a. Website b. Central government c. Local government d. Business Association e. Research Institution f. Through regional government agencies g. Advertise in newspapers h. Electronic media (TV/Radio) i. Specific agencies j. Direct contact from the agency's list k. Others (please specify)	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐ k. ☐	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐ k. ☐	a. ☐ b. ☐ c. ☐ d. ☐ e. ☐ f. ☐ g. ☐ h. ☐ i. ☐ j. ☐ k. ☐

8	Are SME applicants prioritized for this program?	a. Yes b. No	☐ ☐	☐ ☐	☐ ☐
9	Has there been any evaluation of the program to assess the effectiveness of SMEs supported?	a. Yes b. No	☐ ☐	☐ ☐	☐ ☐
10	Do you have any form of program monitoring mechanism?	a. Yes b. No	☐ ☐	☐ ☐	☐ ☒
11	What are the main findings of your monitoring and/or evaluation program?	a. Need to publicize the program further b. Need for easier application process c. Others (please specify)	☐ ☐ ☐…………	☐ ☐ ☐…………	☐ ☐ ☐…………
12	Are there any bilateral/ regional/ international cooperation?	a. No b. Bilateral c. Regional d. International	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐
13	Do you observe an increase in exports of participant SMEs?	a. Yes b. No	☐ ☐	☐ ☐	☐ ☐
14	Has this program required any changes in the legal framework?	a. Substantial changes b. Amendment c. Suspension d. Cancellation	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐	☐ ☐ ☐ ☐
15	Has this program required any organizational restructuring?	a. no b. within an existing institution c. between institutions d. completely a new institution	☐ ☐ ☐	☐ ☐ ☐	☐ ☐ ☐

3. Which of these below are available in your country to strengthen SME access to finance?

	Yes	**No**	**Do not Know**
Creation of specialized financial institution(s) for SMEs (e.g., public SME bank)	☐	☐	☐
Public credit guarantee schemes	☐	☐	☐
Interest rate subsidy for bank credit to SMEs	☐	☐	☐
Mandatory lending to SMEs for commercial banks	☐	☐	☐
Public credit bureau and/or SME credit risk database	☐	☐	☐
Laws and regulations on secured lending (including the creation of collateral registries to promote movable asset financing)	☐	☐	☐
Refinancing facility (the government provides concessional loans and guarantees through participating financial institutions)	☐	☐	☐
Creation of SME incubation fund (providing growth capital to seed firms, start-ups, and entrepreneurs)	☐	☐	☐
Support for new financing models (e.g., crowdfunding)	☐	☐	☐
Support for developing trade finance and supply chain finance	☐	☐	☐
Support for developing nonbank financing instruments (e.g., lease and factoring)	☐	☐	☐
Support for creating long-term financing venue for SMEs (e.g., SME capital markets (equity finance and/or bond issuance)	☐	☐	☐
Support for developing the venture capital industry serving SMEs	☐	☐	☐
Support for developing the base of professionals serving SMEs (e.g., increase the number of certified public accountants (CPAs) serving SMEs)	☐	☐	☐
Tax incentive schemes for priority SME sectors	☐	☐	☐
Support by international organizations such as EBRD/UNDP/EU	☐	☐	☐
Socialization programs/workshops/seminars to promote financial literacy for SMEs	☐	☐	☐

Section 2. Government or International Organization Assistance Program to Help SMEs Overcome Barriers the Export

S1. In terms of the support programs implemented by your institution identified in Section 1, please indicate which internal barriers listed in the table below have been focused on by your institution's program? One support program may be useful to remove more than one barrier.

Export Barriers			Export Support Program
Groups of Barriers		**Specific Export Barriers**	
Information	**IB1**	Limited information to locate in export markets	
	IB2	Unreliable, inaccessible and high cost of information about export markets	
	IB3	Difficulty in identifying business opportunities in export markets	
	IB4	Difficulty in contacting foreign buyers/customers	
Human resources	**IB5**	Inadequate number of personnel and/or unprofessional personnel for export	
Finance	**IB6**	Shortage, of funds to finance working capital for export	
	IB7	Shortage of funds to finance investment for export	
	IB8	Insurance shortage for export	
Products, price	**IB9**	Difficulty in developing new products for export markets	
	IB10	Difficulty in meeting product quality/principles/specifications of overseas markets	
	IB11	Difficulty in matching competitors' prices	
Distribution, logistics, promotion	**IB12**	Difficulty in establishing and using distribution channels in export markets	
	IB13	Difficulty in supplying inventory abroad	
	IB14	Excessive transportation and insurance costs	
	IB15	Difficulty in offering technical and after-sale service	

S2. In terms of the support programs implemented by your institution identified in Section 1, please indicate which external barriers listed in the table below have been focused on by your institution's program? One support program may be useful to remove more than one barrier.

Home government	**EB1**	Lack of home government support/incentives	
	EB2	Unfavorable home rules and regulations (such as no diplomatic relations and export restriction)	
	EB3	Underdeveloped payment mechanisms related to foreign trade	
Host government	**EB4**	Restriction to foreign ownership and on the movement of business representatives (difficulty in obtaining visa, quotas, duration of stay)	
	EB5	Foreign government's unequal treatment compared to domestic enterprises in tax	
	EB6	Foreign government's unequal treatment compared to domestic enterprises in competition regulations	
Business environment	**EB7**	Differences in social-cultural environment	
	EB8	The negative image of your country's products abroad	
Tariff and non-tariff barriers	**EB9**	High tariff barriers in foreign countries	
	EB10	Restrictive health, safety and technical principles	
	EB11	Arbitrary tariff classification	
	EB12	Unfavorable quotas and embargoes	
	EB13	Competitors with preferential tariff by regional trade agreement	
	EB14	High cost of customs administration	

ANNEX II – Information

Governmental and Non-Governmental International Organizations

Organization	Website
African Development Bank (AfDB)	https://www.afdb.org/
African Union (AU)	https://au.int/
APEC SME Innovation Center (SMEIC)	http://www.apec-smeic.org/
Europe's Programme for Small and Medium-Sized Enterprises (COSME)	https://ec.europa.eu/growth/smes/cosme_en
European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/
European Commission (EC)	https://ec.europa.eu/
ILO International Training Centre – Enterprise, Microfinance and Local Development (ITCILO)	https://www.ilo.org/
Organisation for Economic Co-operation and Development (OECD)	https://www.oecd.org/cfe/smes/
The Asia-Pacific Economic Cooperation (APEC)	https://www.apec.org/
The Association of Southeast Asian Nations (ASEAN)	https://asean.org/
The Black Sea Economic Cooperation (BSEC)	http://www.bsec-organization.org/
The Economic and Social Commission for Asia and the Pacific (ESCAP)	https://www.unescap.org/
The Economic Community of Central African States (CEEAC)	https://ceeac-eccas.org/
The Economic Community of West African States (ECOWAS)	https://ecowas.int/
The Economic Cooperation Organization (ECO)	https://www.eco.int/
The International Chamber of Commerce (ICC)	https://iccwbo.org/
The International Council for Small Business (ICSB)	https://icsb.org/
The International Network for Small and Medium Sized Enterprises (INSME)	https://www.insme.org/
The International Trade Centre (ITC)	http://www.intracen.org/
The Islamic Chamber of Commerce, Industry and Agriculture (ICCIA)	https://iccia.com/
The Pan African Chamber of Commerce and Industry (PACCI)	https://www.pacci.org/
The SME Finance Forum (SMEFF)	https://www.smefinanceforum.org/
The World Customs Organization (WCO)	http://www.wcoomd.org/
The World Intellectual Property Organization (WIPO)	https://www.wipo.int/
The World Trade Organization (WTO)	https://www.wto.org/
The Eurasian Economic Union (EAEU or EEU)	http://www.eaeunion.org/
The Southern African Development Community (SADC)	https://www.sadc.int/
Union of Arab Chambers (UAC)	http://www.uac-org.org/
United Nations Conference on Trade and Development (UNCTAD)	https://unctad.org/

United Nations Economic and Social Commission for Western Asia (UNESCWA)	https://www.unescwa.org/
United Nations Industrial Development Organization (UNIDO)	https://www.unido.org/
World Bank (WB)	https://www.worldbank.org/
World Union of Small and Medium Enterprises (WUSME)	https://www.wusme.org/

National Public and Private Stakeholders

OIC Region	Country	Organization
Africa	Benin	Chamber of Commerce & Industry of Benin
Africa	Benin	The Ministry of Small and Medium Enterprises and Employment Promotion
Africa	Burkina Faso	The Agency for Financing and Promotion of Small and Medium-Sized Enterprises (AFP-PME)
Africa	Burkina Faso	Ministry of Industrial Development, Trade, Handicrafts and Small and Medium Enterprises
Africa	Burkina Faso	The House of Enterprise of Burkina Faso
Africa	Burkina Faso	Burkina Faso Chamber of Commerce, Industry & Handicrafts
Africa	Cameroon	Ministry Of Small and Medium-Sized Enterprises, Social Economy And Handicrafts (MINPMEESA)
Africa	Cameroon	the Agency for the Promotion of Small and Medium-sized Enterprises (APME)
Africa	Cameroon	The Cameroonian Bank of Small and Medium Enterprises
Africa	Cameroon	the Groupement Inter-Patronal du Cameroun (GICAM)
Africa	Cameroon	Ministry of Trade
Africa	Cameroon	Chamber of Commerce, Industry, Mines and Crafts of Cameroon
Africa	Chad	Chamber of Commerce, Industry, Agriculture, Mines & Handicrafts of Chad
Africa	Chad	the General Confederation of Small and Medium Enterprises of Chad
Africa	Chad	National Agency for Investments and Exports-ANIE
Africa	Cote d'Ivoire	Chamber of Commerce and Industry of Côte d'Ivoire
Africa	Cote d'Ivoire	The Ministry for the Promotion of SMEs, Handicrafts and the Transformation of the Informal Sector
Africa	Cote d'Ivoire	the Ivorian Federation of Small and Medium Enterprises (FIPME)
Africa	Cote d'Ivoire	Ivory Coast SME Agency
Africa	Cote d'Ivoire	Ministry of Commerce, Craft and SME Promotion of Côte d'Ivoire
Africa	Cote d'Ivoire	The Loan Guarantee Fund for SMEs (FGPME)
Africa	Gabon	Chamber of Commerce, Agriculture, Industry, Mining and Crafts of Gabon
Africa	Gabon	Agence Nationale de Promotion des Investissements du Gabon (ANPI-GABON)
Africa	Gabon	Ministry of Trade, Small and Medium Enterprises
Africa	Gambia	Ministry of Trade, Industry, Regional Integration and Employment
Africa	Gambia	Ministry of Finance and Economic Affairs
Africa	Gambia	The Gambia Investment & Export Promotion Agency (GIEPA)
Africa	Gambia	Gambia Chamber of Commerce and Industry
Africa	Guinea	Chamber of Commerce, Industries & Agriculture of the Republic of Guinea
Africa	Guinea	Ministry of Economy and Finance
Africa	Guinea	Ministry of Industry, Small and Medium Enterprises and Private Sector Promotion
Africa	Guinea	Direction Nationale Des PME et du Contenu Local - Guinee
Africa	Guinea Bissau	Chamber of Commerce, Industries & Agricultural of Guinea Bissau
Africa	Guinea Bissau	Ministry of Finance
Africa	Guinea Bissau	Ministry of Trade and Industry
Africa	Mali	Chamber of Commerce & Industry of Mali

Africa	Mali	The National Directorate of Small and Medium Enterprises (DN-PME)
Africa	Mali	SUPPORT PROGRAM FOR THE DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES (PAD-PME)
Africa	Mali	Ministry of Industry and Commerce
Africa	Mali	Ministry for the Promotion of Private Investment, Small and Medium Enterprises (SME) and National Entrepreneurship
Africa	Mali	Ministry of Economy and Finance
Africa	Mozambique	Confederation of Economic Associations of Mozambique (CTA)
Africa	Mozambique	Mozambique Chamber of Commerce and Industry
Africa	Mozambique	Export & Investment Promotion Agency of Mozambique (APIEX)
Africa	Mozambique	Institute for the Promotion of Small and Medium Enterprises
Africa	Mozambique	Ministry of Industry and Trade
Africa	Niger	The Incubator Center for Small and Medium-Sized Enterprises "CIPMEN"
Africa	Niger	Chamber of Commerce, Agriculture, Industry & Handicrafts of Niger
Africa	Niger	La Maison de l'Entreprise
Africa	Niger	Ministry of Trade, Industry and Youth Entrepreneurship
Africa	Nigeria	The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
Africa	Nigeria	Nigeria Association of Small and Medium Enterprises (NASME)
Africa	Nigeria	Nigeria Export-Import Bank (NEXIM)
Africa	Nigeria	National Association of Small-Scale Industrialists (NASSI)
Africa	Nigeria	Nigerian Export Promotion Council (NEPC)
Africa	Nigeria	Federal Ministry of Industry, Trade and Investment
Africa	Nigeria	Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture
Africa	Senegal	Development Agency and Supervision of Small and Medium Enterprises (aDEPME)
Africa	Senegal	Ministry of Industrial Development and Small and Medium Industries
Africa	Senegal	National Union of Chambers of Commerce, Industry and Agriculture of Senegal
Africa	Sierra Leone	the Sierra Leone Small and Medium Enterprises Development Agency (SMEDA)
Africa	Sierra Leone	Sierra Leone Chamber of Commerce, Industry and Agriculture
Africa	Sierra Leone	Sierra Leone Investment & Export Promotion Agency
Africa	Togo	Chamber of Commerce, Agriculture & Industry of Togo
Africa	Togo	l'Agence Nationale de Promotion et de Garantie de Financement des PME/PMI (ANPGF)
Africa	Togo	Togolese Group of Small and Medium Enterprises/Small and Medium Industries (GTPME/PMI)
Africa	Togo	The National Council of Employers of Togo (CNPTOGO)
Africa	Togo	
Africa	Uganda	The Uganda Small Scale Industries Association (USSIA)
Africa	Uganda	Uganda Manufacturers Association
Africa	Uganda	The SME Division (SMED) of Uganda Investment Authority (UIA)
Africa	Uganda	The Uganda Development Bank Limited (UDB)
Africa	Uganda	Uganda National Chamber of Commerce & Industry
Arab	Algeria	Algerian Chamber of Commerce and Industry
Arab	Algeria	the Ministry of Industry

Arab	Algeria	The Guarantee Fund for Loans to SMEs (FGAR)
Arab	Algeria	the National Agency for the Development of SMEs
Arab	Algeria	Ministry of Commerce
Arab	Algeria	The National Agency for the Promotion of Foreign Trade (ALGEX)
Arab	Algeria	The Algerian Society of Fairs and Exports (Safex - SPA)
Arab	Bahrain	Bahrain Chamber of Commerce & Industry
Arab	Bahrain	Export Bahrain
Arab	Bahrain	Ministry of Industry, Commerce & Tourism Kingdom of Bahrain
Arab	Bahrain	Bahrain Economic Development Board
Arab	Comoros	Ministry of Finance, Budget and Banking Sector
Arab	Comoros	National Agency for the Promotion of Investments
Arab	Comoros	Union of Chamber of Commerce, Industry & Agriculture of Comoros
Arab	Comoros	Ministry of Production, Environment, Energy, Industry and Handicrafts
Arab	Djibouti	Chamber of Commerce of Djibouti
Arab	Djibouti	Ministry of Economy and Finance in charge of Industry
Arab	Djibouti	Djibouti Economic Development Fund
Arab	Egypt	Egyptian Micro, Small and Medium Enterprises Development Agency (MSMEDA)
Arab	Egypt	General Authority for Investment and Free Zones
Arab	Egypt	Ministry of Trade and Industry
Arab	Egypt	Export Development Authority
Arab	Egypt	Federation of Egyptian Chambers of Commerce
Arab	Iraq	Federation of Iraqi Chambers of Commerce & Industry
Arab	Iraq	Iraq National Investment Commission
Arab	Iraq	Ministry of Trade
Arab	Jordan	Jordan Chamber of Commerce
Arab	Jordan	Ministry of Industry and Trade
Arab	Jordan	Ministry of Investment
Arab	Jordan	Jordan Export Development & Commercial Centers Corporation (JEDCO)
Arab	Kuwait	The Public Authority of Industry
Arab	Kuwait	Ministry of Commerce and Industry
Arab	Kuwait	Kuwait Chamber of Commerce & Industry
Arab	Kuwait	National Fund for Small and Medium Enterprise (SME) Development
Arab	Kuwait	Kuwait Direct Investment Promotion Authority (KDIPA)
Arab	Lebanon	the Export Platform of the Investment Development Authority of Lebanon (IDAL)
Arab	Lebanon	Chamber of Commerce & Industry & Agriculture in Beirut and Mount of Lebanon
Arab	Lebanon	The Economic and Social Fund for Development (ESFD)
Arab	Lebanon	Trade Information Center
Arab	Lebanon	The Ministry of Economy and Trade
Arab	Libya	General Union of the Chambers of Commerce and Industry and Agriculture
Arab	Libya	Ministry of Economy & Industry

Arab	Libya	The National Program for Small and Medium Enterprises
Arab	Libya	Ministry of Economy & Industry
Arab	Libya	National Industry Promotion Authority
Arab	Mauritania	The Mauritanian Trade Portal
Arab	Mauritania	Chamber of Commerce, Industry & Agriculture of Mauritania
Arab	Mauritania	The Ministry of Trade, Industry, Handicrafts and Tourism
Arab	Morocco	Federation of Moroccan Chambers of Commerce and Industry
Arab	Morocco	National Agency for the Promotion of SMEs (Maroc PME)
Arab	Morocco	TAMWILCOM
Arab	Morocco	Ministry of Industry and Trade
Arab	Morocco	The Moroccan Association of Exporters, "ASMEX"
Arab	Morocco	Moroccan Agency for Export and Investment Promotion (AMDIE)
Arab	Morocco	the Autonomous Establishment for Control and Coordination of Exports (FOODEX)
Arab	Morocco	Craftsman's House
Arab	Morocco	the General Confederation of Moroccan Enterprises (CGEM)
Arab	Oman	The Public Authority for Investment Promotion and Export Development
Arab	Oman	Ministry of Commerce, Industry and Investment Promotion
Arab	Oman	Authority of Small and Medium Enterprises Development
Arab	Oman	Oman Chamber of Commerce & Industry
Arab	Palestine	Federation of Palestinian Chambers of Commerce, Industry and Agriculture
Arab	Palestine	Palestinian Investment Promotion Agency - PIPA
Arab	Palestine	Palestine Trade Center (PalTrade)
Arab	Palestine	Ministry of Economy and Trade
Arab	Qatar	Enterprise Qatar
Arab	Qatar	Ministry of Commerce and Industry
Arab	Qatar	Qatar Development Bank
Arab	Qatar	Qatar Chamber of Commerce and Industry
Arab	Saudi Arabia	The Saudi Export Development Authority, 'SAUDI EXPORTS
Arab	Saudi Arabia	Ministry of Commerce
Arab	Saudi Arabia	the Saudi Industrial Development Fund (SIDF)
Arab	Saudi Arabia	Federation of Saudi Chambers of Commerce and Industry
Arab	Saudi Arabia	The Small and Medium Enterprises General Authority (Monsha'at)
Arab	Saudi Arabia	the Small and Medium Enterprises Bank (SME Bank)
Arab	Saudi Arabia	Saudi EXIM Bank
Arab	Somalia	Ministry of Commerce and Industry
Arab	Somalia	Somali Chamber of Commerce, Industry & Agriculture
Arab	Sudan	the Ministry of Investment
Arab	Sudan	Union of Sudanese Chamber of Commerce
Arab	Sudan	Ministry of Industry and Trade
Arab	Sudan	Sudanese Businessmen and Employers Federation

Arab	Tunisia	Ministry of Trade and Handicrafts
Arab	Tunisia	the Export Promotion Center (CEPEX)
Arab	Tunisia	Tunis Chamber of Commerce and Industry
Arab	Tunisia	Tunisian Union of Industry Commerce & Handicraft
Arab	Tunisia	The Ministry of Industry, Mines and Energy
Arab	UAE	Ministry of Economy
Arab	UAE	Federation of U.A.E. Chamber of Commerce & Industry
Arab	UAE	UAE Exports & Industry Directory
Arab	UAE	Dubai SME
Arab	UAE	Khalifa Fund
Arab	UAE	Emirates Development Bank
Arab	Yemen	Yemen Trade Portal
Arab	Yemen	General Investment Authority
Arab	Yemen	The Small and Micro Enterprise Promotion Service
Arab	Yemen	Small And Micro Enterprise Development Unit
Arab	Yemen	Ministry of Industry and Trade
Arab	Yemen	Federation of Yemen Chambers of Commerce & Industry
Asia	Afghanistan	Ministry of Industry and Commerce
Asia	Afghanistan	Ministry of Economic
Asia	Afghanistan	Afghanistan Chamber of Commerce and Investment (ACCI)
Asia	Afghanistan	Export Promotion Agency of Afghanistan MOCI
Asia	Albania	The Albanian Investment Development Agency (AIDA)
Asia	Albania	Nucleus Albania
Asia	Albania	The Ministry of Finances and Economy
Asia	Albania	International Chamber of Commerce in Albania
Asia	Azerbaijan	The Small and Medium Business (SMB) Development Agency of the Republic of Azerbaijan
Asia	Azerbaijan	Export and Investment Promotion Agency of the Republic of Azerbaijan - AZPROMO
Asia	Azerbaijan	The National Confederation of Entrepreneurs (Employers) Organizations of the Republic of Azerbaijan (ASK)
Asia	Bangladesh	Small and Medium Enterprise Foundation
Asia	Bangladesh	SME & Special Programmes Department (SME&SPD)
Asia	Bangladesh	Bangladesh Investment Development Authority (BIDA)
Asia	Bangladesh	National Association of Small and Cottage Industries of Bangladesh (NASCIB)
Asia	Bangladesh	Federation of Bangladesh Chambers of Commerce & Industry
Asia	Bangladesh	Small and Medium Enterprises Owners Association of Bangladesh
Asia	Brunei Darussalam	The National Chamber of Commerce and Industry Brunei Darussalam
Asia	Brunei Darussalam	The Ministry of Primary Resources and Tourism Entrepreneurial Development Centre
Asia	Brunei Darussalam	Ministry of Finance and Economy
Asia	Guyana	Ministry of Business
Asia	Guyana	The Small Business Bureau (SBB)

Asia	Guyana	Georgetown Chamber of Commerce & Industry
Asia	Indonesia	the Ministry of Cooperatives and Small and Medium Enterprises (KUKM)
Asia	Indonesia	The Indonesia Investment Coordinating Board (BKPM)
Asia	Indonesia	Ministry of Finance of Republic of Indonesia
Asia	Indonesia	Indonesian Chamber of Commerce and Industry
Asia	Iran	Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA)
Asia	Iran	Iran Small Industries and Industrial Parks Organization (ISIPO)
Asia	Iran	Iran Export Promotion Center
Asia	Kazakhstan	Damu Entrepreneurship Development Fund
Asia	Kazakhstan	Association of Microfinance Organizations of Kazakhstan
Asia	Kazakhstan	The National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken"
Asia	Kazakhstan	Ministry of Trade and Integration of the Republic of Kazakhstan
Asia	Kyrgyzstan	The Ministry of Economy
Asia	Kyrgyzstan	The Chamber of Commerce and Industry of the Kyrgyz Republic
Asia	Malaysia	SME Corporation Malaysia (SME Corp. Malaysia)
Asia	Malaysia	Small Medium Enterprise Development Bank Malaysia Berhad
Asia	Malaysia	The SMEinfo Portal
Asia	Malaysia	Ministry of Entrepreneur Development and Cooperatives
Asia	Malaysia	Ministry of International Trade and Industry (MITI)
Asia	Malaysia	Small and Medium Enterprises Association of Malaysia
Asia	Malaysia	SME Association of Malaysia
Asia	Malaysia	National Chamber of Commerce and Industry of Malaysia
Asia	Maldives	Ministry of Economic Development
Asia	Maldives	SME Development Finance Corporation
Asia	Maldives	SME and Entrepreneur Federation of Maldives
Asia	Maldives	Maldives National Chamber of Commerce and Industry
Asia	Pakistan	Export Import Bank of Pakistan (EXIM Bank of Pakistan)
Asia	Pakistan	The SME Bank
Asia	Pakistan	Small and Medium Enterprises Development Authority (SMEDA)
Asia	Pakistan	Ministry of Commerce
Asia	Pakistan	Pakistan Institute of Trade and Development (PITAD)
Asia	Pakistan	Export Development Fund (EDF)
Asia	Pakistan	Federation of Pakistan Chambers of Commerce & Industry
Asia	Pakistan	The Trade Development Authority of Pakistan (TDAP)
Asia	Suriname	Ministry of Trade, Industry & Tourism
Asia	Suriname	The Chamber of Commerce and Industry
Asia	Tajikistan	Ministry Of Economic Development And Trade
Asia	Tajikistan	the Chamber of Commerce and Industry of the Republic of Tajikistan
Asia	Turkey	the Foreign Economic Relations Board of Türkiye (DEİK)
Asia	Turkey	Turkish Exporters Assembly (TİM)

Asia	Turkey	Small and Medium Enterprises Development Organization of Turkey (KOSGEB)
Asia	Turkey	Export Credit Bank of Türkiye (EXIM Bank)
Asia	Turkey	Republic of Turkiye Ministry of Trade
Asia	Turkey	The Union of Chambers and Commodity Exchanges of Turkey (TOBB)
Asia	Turkmenistan	Ministry of Trade and Foreign Economic Relations
Asia	Turkmenistan	The Export Platform of Turkmenistan
Asia	Turkmenistan	The State Bank for Foreign Economic Affairs of Turkmenistan
Asia	Turkmenistan	Chamber of Commerce and Industry of Turkmenistan
Asia	Turkmenistan	The Ministry of Finance and Economy of Turkmenistan
Asia	Uzbekistan	the Chamber of Commerce and Industry
Asia	Uzbekistan	Small Businesses and Private Entrepreneurship's Export Promotion Fund
Asia	Uzbekistan	the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan

Statistics

Trade Facilitation Performance												
Country	Avg.	A	B	C	D	E	F	G	H	I	J	K
Albania	1.37	1.33	1.57	1.57	1.67	1.85	1.44	1.09	1.50	0.70	0.73	1.63
Algeria	0.83	1.10	0.71	1.25	1.56	1.25	0.33	0.60	0.70	0.80	0.36	0.43
Azerbaijan	1.23	1.48	1.14	1.33	1.25	1.39	1.13	1.30	1.27	0.90	0.80	1.56
Bahrain	1.01	1.14	0.43	0.00	1.33	1.46	1.00	1.10	1.24	1.00	1.09	1.33
Bangladesh	0.95	1.25	1.14	1.14	1.63	1.46	0.78	0.46	0.70	0.55	0.36	1.00
Benin	0.68	0.60	1.00	0.28	0.56	0.85	1.25	0.54	0.96	0.36	0.46	0.67
Brunei	1.36	1.25	1.13	2.00	0.67	2.00	1.13	1.62	1.53	1.30	1.09	1.22
Burkina Faso	0.65	0.75	0.57	0.28	0.33	1.15	0.75	0.60	1.16	0.27	0.46	0.78
Cameroon	0.99	0.90	1.14	1.14	0.75	1.46	0.63	1.10	1.07	0.90	0.55	1.22
Chad	0.36	0.11	0.57	0.00	0.13	1.00	0.38	0.40	0.46	0.36	0.50	0.00
Comoros	0.38	0.55	0.17	0.00	0.29	1.00	0.38	0.22	0.67	0.18	–	–
Côte d'Ivoire	0.78	1.10	0.86	0.86	0.67	0.93	0.88	0.70	1.11	0.55	0.46	0.44
Djibouti	0.35	0.42	0.00	0.57	0.25	0.83	0.75	0.11	0.73	0.09	0.00	0.13
Egypt	1.19	1.29	1.75	0.00	1.56	1.62	1.13	0.60	1.35	0.90	1.18	1.78
Gabon	0.52	0.21	0.71	0.29	0.38	0.92	0.88	0.50	1.00	0.18	0.00	0.67
Gambia	0.69	0.60	0.67	0.89	0.56	1.50	0.88	0.44	1.05	0.20	0.40	0.44
Indonesia	1.34	1.52	1.57	1.40	1.50	1.54	1.38	1.00	1.56	0.90	0.82	1.56
Jordan	1.02	0.90	1.29	2.00	1.67	1.15	0.75	0.60	1.27	0.67	0.73	0.25
Kazakhstan	1.10	0.70	1.29	2.00	1.44	1.77	1.13	1.40	1.20	0.46	0.50	0.25
Kuwait	0.95	1.05	0.86	1.60	1.11	1.39	0.88	0.60	1.00	0.67	0.46	0.89
Kyrgyzstan	0.98	1.10	1.17	1.60	1.22	1.17	0.44	0.67	0.78	0.36	0.55	1.67
Lebanon	0.91	0.90	1.14	0.57	0.89	1.33	0.88	1.11	1.00	0.60	0.46	1.11
Malaysia	1.42	1.30	1.57	2.00	1.63	1.77	1.38	1.09	1.61	0.90	0.80	1.56
Maldives	0.82	1.00	1.50	0.00	0.50	1.13	0.63	0.89	0.95	–	–	–
Mali	0.72	0.75	0.57	0.89	0.67	1.62	0.88	0.40	0.79	0.56	0.27	0.56
Morocco	1.56	1.50	1.71	2.00	1.67	1.92	1.75	1.54	1.50	0.90	0.64	2.00
Mozambique	0.79	0.60	0.71	0.00	1.22	1.08	1.50	0.90	1.15	0.27	0.73	0.50
Niger	0.55	0.37	1.00	0.80	1.00	0.67	0.75	0.11	0.73	0.18	0.18	0.22
Nigeria	0.89	1.05	1.14	0.57	1.44	1.46	0.88	0.70	1.00	0.46	0.46	0.67
Oman	1.73	1.81	1.75	1.57	1.64	1.92	1.78	2.00	1.74	1.55	1.36	1.89
Pakistan	1.35	1.40	1.43	1.60	1.63	1.77	1.11	1.23	1.20	1.10	0.46	1.89
Qatar	1.29	1.15	1.57	2.00	1.44	1.85	1.75	0.90	1.28	0.73	0.64	0.89
Saudi Arabia	1.47	1.43	1.63	1.67	1.33	1.85	1.56	1.62	1.60	0.91	0.91	1.67
Senegal	1.18	1.05	1.29	1.33	1.22	1.46	1.50	1.25	1.46	0.82	0.55	1.00
Sierra Leone	0.53	0.70	0.57	0.86	0.67	1.08	0.63	0.31	0.36	0.20	0.20	0.22
Sudan	0.50	0.47	1.00	0.00	0.67	1.00	0.75	0.30	0.84	0.36	0.00	0.11
Suriname	0.41	0.20	0.83	0.00	0.75	0.50	0.88	0.33	0.64	0.30	0.00	0.13
Tajikistan	0.91	0.38	0.83	1.00	0.78	1.67	1.00	0.78	1.24	0.36	0.50	1.44
Togo	0.73	0.95	0.71	0.29	0.63	1.54	0.75	0.31	0.79	0.50	0.46	1.11
Tunisia	1.26	1.05	1.29	1.43	1.33	1.62	1.63	1.40	1.15	0.73	1.00	1.22
Turkey	1.56	1.48	1.75	1.36	1.40	1.62	1.75	1.67	1.61	1.70	0.91	1.89
Uganda	0.94	1.05	1.29	0.80	0.78	1.62	1.25	0.92	1.00	0.70	0.82	0.13
UAE	1.34	1.52	1.57	0.86	1.22	1.77	1.63	1.83	1.48	1.00	0.90	1.00
Uzbekistan	0.71	0.68	1.14	1.33	1.29	0.92	0.63	0.31	0.76	0.36	0.27	0.14
Yemen	0.23	0.33	0.00	0.00	0.38	0.42	0.43	0.11	0.52	0.18	0.10	0.00

Note: *A-Information availability; B-Involvement of the trade community; C-Advance rulings; D-Appeal procedures; E-Fees and charges; F-Documents; G-Automation; H-Procedures; I-Internal border agency co-operation; J-External border agency co-operation; K-Governance and impartiality*

Data Source: *https://www.oecd.org/trade/topics/trade-facilitation/*

International or Regional Market Information and Trade Data Sources

Scope	Name	Website
International	The United Nations (UN)	https://www.un.org/
International	OECD (Organisation for Economic Co-operation and Development)	https://www.oecd.org/
International	The International Monetary Fund (IMF)	https://www.imf.org/
International	The World Bank Group	https://www.worldbank.org/en/home
International	The World Trade Organization (WTO)	https://www.wto.org/
International	The International Trade Centre (ITC)	https://intracen.org/
International	The United Nations Conference on Trade and Development (UNCTAD)	https://unctad.org/
International	The World Intellectual Property Organization (WIPO	https://www.wipo.int/
International	The European Commission (EC)	https://ec.europa.eu/
International	The Asian Development Bank (ADB)	https://www.adb.org/
International	The Association of Southeast Asian Nations (ASEAN)	https://asean.org/
International	the African Development Bank (AfDB) Group	https://www.afdb.org/
International	The Common Market for Eastern and Southern Africa (COMESA)	https://www.comesa.int/
International	Economic Community of Central African States (ECCAS)	https://ceeac-eccas.org/
International	The SME Finance Forum	https://www.smefinanceforum.org/
International	Statista	https://www.statista.com/
International	Islamic Centre for Development of Trade (ICDT)	https://icdt-cidc.org/
International	Islamic Chamber of Commerce, Industry & Agriculture (ICCIA)	https://iccia.com/
International	the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)	https://www.sesric.org/
International	AFRISTAT	https://www.afristat.org/
International	East African Community (EAC)	https://www.eac.int/
International	The Latin American Integration Association (ALADI)	https://www.aladi.org/
International	Caribbean Community (CARICOM)	https://caricom.org/
International	Economic Cooperation Organization (ECO)	https://www.eco.int/
International	Economic Community of West African States (ECOWAS)	https://ecowas.int/
International	The Interstate Statistical Committee of the Commonwealth of Independent States (CIS STAT)	http://www.cisstat.org/
Afghanistan	National Statistics and Information Authority (NSIA)	http://nsia.gov.af/
Albania	Institute of Statistics (INSTAT)	http://www.instat.gov.al/
Algeria	The National Office of Statistics (ONS)	https://www.ons.dz/
Azerbaijan	State Statistics Committee of Azerbaijan Republic	https://www.stat.gov.az/
Bahrain	the Information & eGovernment Authority (iGA)	https://www.data.gov.bh/
Bangladesh	Bangladesh Bureau of Statistics (BBS)	http://www.bbs.gov.bd
Benin	Department of Economic Planning and Statistics (JPES)	https://instad.bj/
Brunei Darussalam	National Institute of Statistics of Djibouti (INSTAD)	https://deps.mofe.gov.bn/
Burkina Faso	National Institute of Statistics and Demography	http://www.insd.bf/

Cameroon	National Institute of Statistics (INS)	https://ins-cameroun.cm/
Chad	National Institute of Statistics, Economic and Demographic Studies (INSEED)	https://www.inseed.td/
Comoros	National Institute of Statistics and Economic and Demographic Studies (INSEED)	http://www.inseed.km/
Cote D'Ivoire	National Institute of Statistics	http://www.ins.ci/
Djibouti	National Institute of Statistics of Djibouti (INSTAD)	http://www.instad.dj/
Egypt	Central Agency for Public Mobilization and Statistics (CAPMAS)	http://www.capmas.gov.eg
Gabon	General Directorate of Statistics (DGS)	https://statgabon.ga/
Gambia	Gambia Bureau of Statistics (GBOS)	https://www.gbosdata.org/
Guinea	National Institute of Statistics (INS)	https://www.stat-guinee.org/
Guinea-Bissau	National Institute of Statistics (INE)	https://www.stat-guinebissau.com/
Guyana	Bureau of Statistics (BoS)	https://statisticsguyana.gov.gy/
Indonesia	BPS-Statistics Indonesia	https://www.bps.go.id/
Iran	Statistical Centre of Iran (SCI)	https://www.amar.org.ir/
Iraq	Central Statistical Organization (CSO)	https://www.cosit.gov.iq/
Jordan	Department of Statistics (DoS)	http://www.dos.gov.jo
Kazakhstan	Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan	https://stat.gov.kz/
Kuwait	Central Statistical Bureau (CSB)	https://www.csb.gov.kw/
Kyrgyzstan	National Statistical Committee of the Kyrgyz Republic (NSC)	http://www.stat.kg
Lebanon	Central Administration of Statistics (CAS)	http://www.cas.gov.lb
Libya	Libyan Bureau of Statistics and Census (LBSC)	http://www.bsc.ly
Malaysia	Department of Statistics Malaysia (DOSM)	https://www.dosm.gov.my/
Maldives	Maldives Bureau of Statistics (MBS)	http://www.statisticsmaldives.gov.mv
Mali	National Institute of Statistics (INSTAT)	https://www.instat-mali.org/
Mauritania	National Agency for Statistics and Demographic and Economic Analysis (ANSADE)	http://ansade.mr/
Morocco	High Commission for Planning (HCP)	https://www.hcp.ma/
Mozambique	Office for National Statistics (INE)	http://www.ine.gov.mz/
Niger	National Institute of Statistics (INS)	https://www.stat-niger.org/
Nigeria	National Bureau of Statistics (NBS)	https://www.nigerianstat.gov.ng/
Oman	National Center for Statistics and Information (NCSI)	https://www.ncsi.gov.om/
Pakistan	Pakistan Bureau of Statistics (PBS)	https://www.pbs.gov.pk/
Palestine	Palestinian Central Bureau of Statistics (PCBS)	https://www.pcbs.gov.ps/
Qatar	Planning and Statistics Authority of Qatar (PSA)	https://www.psa.gov.qa/
Saudi Arabia	General Authority for Statistics (GASTAT)	https://www.stats.gov.sa/
Senegal	National Agency for Statistics and Demography (ANSD)	http://www.ansd.sn
Sierra Leone	Statistics Sierra Leone (Stats SL)	http://www.statistics.sl
Somalia	Somalia National Bureau of Statistics (SNBS)	https://www.nbs.gov.so/
Sudan	Central Bureau of Statistics (CBS)	https://cbs.gov.sd/
Suriname	General Bureau of Statistics (ABS)	https://statistics-suriname.org/

Tajikistan	Agency on Statistics under President of the Republic of Tajikistan	https://www.stat.tj/
Togo	National Institute of Statistics and Economic and Demographic Studies (INSEED)	https://inseed.tg/
Tunisia	National Institute of Statistics (INS)	http://www.ins.tn
Türkiye	Turkish Statistical Institute (TurkStat)	https://www.tuik.gov.tr/
Turkmenistan	State Committee on Statistics of Turkmenistan	https://www.stat.gov.tm/
Uganda	Uganda Bureau of Statistics (UBOS)	http://www.ubos.org
United Arab Emirates	Federal Competitiveness and Statistics Centre (FCSC)	http://www.fcsc.gov.ae
Uzbekistan	State Committee of the Republic of Uzbekistan on Statistics (Goskomstat)	https://www.stat.uz/
Yemen	Central Statistical Organization (CSO)	-

International or Regional Financial /Credit Sources

Organization	Website
Arab Monetary Fund	https://www.amf.org.ae/
Arab Bank for Economic Development in Africa	https://www.badea.org/
The Arab Authority for Agricultural Investment and Development (AAAID)	https://www.aaaid.org/
The Islamic Development Bank	https://www.isdb.org/
The International Bank for Reconstruction and Development (IBRD)	https://www.worldbank.org/en/who-we-are/ibrd
African Export-Import Bank	https://www.afreximbank.com/
The Eastern and Southern African Trade and Development Bank	https://www.tdbgroup.org/
The Africa Agriculture and Trade Investment Fund (AATIF)	https://www.aatif.lu/
the African Development Bank (AfDB)	https://www.afdb.org/
The Asian Development Bank (ADB)	https://www.adb.org/
Eurasian Development Bank	https://eabr.org/
The Black Sea Trade and Development Bank (BSTDB)	https://www.bstdb.org/
The West African Development Bank (BOAD)	https://www.boad.org/
The East African Development Bank (EADB)	https://www.eadb.org/
The Development Bank of the Central African States(BDEAC)	https://www.bdeac.org/
The ECOWAS Bank for Investment and Development (EBID)	https://www.bidc-ebid.org/
The OPEC Fund for International Development (the OPEC Fund)	https://opecfund.org/
The Arab Fund for Economic and Social Development (the Arab Fund)	https://www.arabfund.org/
The International Fund for Agricultural Development (IFAD)	https://www.ifad.org/
The Saudi Fund for Development	https://www.sfd.gov.sa/en/
Qatar Fund for Development	https://qatarfund.org.qa/
Abu Dhabi Fund for Development Board	https://www.adfd.ae/
Iraqi Fund for External Development	http://ifed.gov.iq/
Kuwait Fund for Arab Economic Development	https://www.kuwait-fund.org/
National Fund for SME Development (the “SME Fund”)	https://www.nationalfund.gov.kw/
SEAF (Small Enterprise Assistance Funds)	https://www.seaf.com/
Credit Guarantee Fund	https://www.kgf.com.tr/

Web Site Addresses

OIC Region	Country	Organization	Website
Africa	Benin	The Ministry of Small and Medium Enterprises and Employment Promotion	https://pmepe.gouv.bj/
Africa	Burkina Faso	The Agency for Financing and Promotion of Small and Medium-Sized Enterprises (AFP-PME)	https://afppme.bf/
Africa	Cameroon	the Agency for the Promotion of Small and Medium-sized Enterprises (APME)	http://apme.cm/
Africa	Chad	National Agency for Investments and Exports-ANIE	https://anie.td/
Africa	Cote d'Ivoire	Ivory Coast SME Agency	https://agencecipme.ci/
Africa	Gabon	Ministry of Trade, Small and Medium Enterprises	http://www.pme.gouv.ga/
Africa	Gambia	Ministry of Trade, Industry, Regional Integration and Employment	https://motie.gm/
Africa	Guinea	Ministry of Industry, Small and Medium Enterprises and Private Sector Promotion	-
Africa	Guinea Bissau	Ministry of Trade and Industry	-
Africa	Mali	Ministry for the Promotion of Private Investment, Small and Medium Enterprises (SME) and National Entrepreneurship	https://www.investir.gouv.ml/
Africa	Mozambique	Institute for the Promotion of Small and Medium Enterprises	https://www.ipeme.org/
Africa	Niger	Ministry of Trade, Industry and Youth Entrepreneurship	-
Africa	Nigeria	The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)	https://smedan.gov.ng/
Africa	Senegal	Development Agency and Supervision of Small and Medium Enterprises (ADEPME)	https://adepme.sn/
Africa	Sierra Leone	the Sierra Leone Small and Medium Enterprises Development Agency (SMEDA)	https://smeda.gov.sl/
Africa	Togo		https://commerce.gouv.tg/
Africa	Uganda	The SME Division (SMED) of Uganda Investment Authority (UIA)	https://www.ugandainvest.go.ug/
Arab	Algeria	the National Agency for the Development of SMEs	https://pme-dz.com/
Arab	Bahrain	Ministry of Industry, Commerce & Tourism Kingdom of Bahrain	https://www.moic.gov.bh/en/Tiles/Pages/default.aspx?tagId=10
Arab	Comoros	Ministry of Production, Environment, Energy, Industry and Handicrafts	-
Arab	Djibouti	Djibouti Economic Development Fund	http://www.fdeddjibouti.com/
Arab	Egypt	Egyptian Micro, Small and Medium Enterprises Development Agency (MSMEDA)	http://www.msmeda.org.eg/
Arab	Iraq	Ministry of Trade	https://mot.gov.iq/
Arab	Jordan	Ministry of Industry and Trade	http://www.mit.gov.jo/
Arab	Kuwait	National Fund for Small and Medium Enterprise (SME) Development	https://www.nationalfund.gov.kw/
Arab	Lebanon	The Ministry of Economy and Trade	https://www.economy.gov.lb/

Arab	Libya	Ministry of Economy & Industry	https://economy.gov.ly/
Arab	Mauritania	The Ministry of Trade, Industry, Handicrafts and Tourism	https://www.commerce.gov.mr/
Arab	Morocco	National Agency for the Promotion of SMEs (Maroc PME)	https://marocpme.gov.ma/
Arab	Oman	Authority of Small and Medium Enterprises Development	https://www.sme.gov.om/
Arab	Palestine	Ministry of Economy and Trade	http://www.mne.gov.ps/
Arab	Qatar	Ministry of Commerce and Industry	https://www.moci.gov.qa/
Arab	Saudi Arabia	The Small and Medium Enterprises General Authority (Monsha'at)	https://www.monshaat.gov.sa/en
Arab	Somalia	Ministry of Commerce and Industry	https://moci.gov.so/
Arab	Sudan	Ministry of Industry and Trade	http://www.tpsudan.gov.sd/
Arab	Tunisia	The Ministry of Industry, Mines and Energy	http://industrie.gov.tn/
Arab	UAE	Ministry of Economy	https://www.moec.gov.ae/
Arab	Yemen	Small And Micro Enterprise Development Unit	https://smed.sfd-yemen.org/
Asia	Afghanistan	Ministry of Industry and Commerce	https://moci.gov.af/
Asia	Albania	The Albanian Investment Development Agency (AIDA)	https://aida.gov.al/
Asia	Azerbaijan	The Small and Medium Business (SMB) Development Agency of the Republic of Azerbaijan	https://smb.gov.az
Asia	Bangladesh	Small and Medium Enterprise Foundation	www.smef.gov.bd
Asia	Brunei Darussalam	The Ministry of Primary Resources and Tourism Entrepreneurial Development Centre	http://www.mprt.gov.bn/SitePages/Entrepreneurial%20Development%20Centre.aspx
Asia	Guyana	The Small Business Bureau (SBB)	https://sbb.gov.gy/
Asia	Indonesia	the Ministry of Cooperatives and Small and Medium Enterprises (KUKM)	https://kemenkopukm.go.id/
Asia	Iran	Iran Small Industries and Industrial Parks Organization (ISIPO)	http://isipo.ir/
Asia	Kazakhstan	Damu Entrepreneurship Development Fund	https://damu.kz/
Asia	Kyrgyzstan	The Ministry of Economy	http://mineconom.gov.kg/en
Asia	Malaysia	SME Corporation Malaysia (SME Corp. Malaysia)	https://www.smecorp.gov.my/
Asia	Maldives	Ministry of Economic Development	https://www.trade.gov.mv/
Asia	Pakistan	Small and Medium Enterprises Development Authority (SMEDA)	https://smeda.org/
Asia	Suriname	Ministry of Trade, Industry & Tourism	https://tradeandindustry.gov.sr/
Asia	Tajikistan	Ministry Of Economic Development and Trade	https://medt.tj/
Asia	Turkey	Small and Medium Enterprises Development Organization of Turkey (KOSGEB)	https://www.kosgeb.gov.tr/
Asia	Turkmenistan	Ministry of Trade and Foreign Economic Relations	https://www.mintradefer.gov.tm/
Asia	Uzbekistan	Small Businesses and Private Entrepreneurship's Export Promotion Fund	https://nbu.uz/en/about-bank/small-business-and-export-promotion-fund/

Entities and Contact Points

Country	Name	Website
Australia	The Department of Industry, Science, Energy and Resources (DIISR)	https://www.industry.gov.au/
Brazil	Brazilian Micro and Small Enterprises' Support Service (SEBREA)	https://www.sebrae.com.br/
Canada	Innovation, Science and Economic Development Canada (ISED)	www.ic.gc.ca/
China	Small and Medium Enterprise Bureau	https://www.miit.gov.cn/jgsj/qyj/
France	The Directorate General for Enterprise (DGE)	https://www.entreprises.gouv.fr/
Germany	The Federal Office for Economic Affairs and Export Control (BAFA)	https://www.bafa.de/
Hong Kong	Support and Consultation Centre for SMEs (SUCCESS)	https://www.success.tid.gov.hk/
India	Ministry of Micro, Small & Medium Enterprises (M/o MSME)	https://msme.gov.in/
Italy	The Italian Ministry of Economic Development (MISE)	https://www.mise.gov.it/
Japan	Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (SMRJ)	https://www.smrj.go.jp/
Netherlands	Netherlands Enterprise Agency (RVO)	https://www.rvo.nl/
Poland	the Polish Agency for Enterprise Development (PARP)	https://en.parp.gov.pl/
Russia	The Ministry of Economic Development of the Russian Federation (MINEC)	https://economy.gov.ru/
South Africa	Small Enterprise Development Agency (SEDA)	http://www.seda.org.za/
South Korea	he Korea SMEs & Startups Agency (KOSME)	https://www.kosmes.or.kr/
Spain	The General Secretariat for Industry and Small and Medium Enterprises (SGIPYME)	https://industria.gob.es/es-es/Paginas/Index.aspx/
Sweden	The Ministry of Enterprise and Innovation	https://www.government.se/government-of-sweden/ministry-of-enterprise-and-innovation/
Thailand	The Office of Small and Medium Enterprises Promotion (OSMEP)	https://www.sme.go.th/
UK	Small and Medium Business Hub	https://www.gov.uk/guidance/small-and-medium-business-hub
USA	U.S. Small Business Administration (SBA)	https://www.sba.gov/
Vietnam	Ministry of Planning and Investment of Vietnam Agency for Enterprise Development (AED)	https://business.gov.vn/