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PROMOTING THE SMEs EXPORTS IN THE OIC MEMBER COUNTRIES

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Preface

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INTRODUCTION

Small and Medium-sized Enterprises (SMEs) constitute a significant place in the economies of the OIC Member States. They contribute to production, job creation and poverty alleviation. However, they mainly concentrate on local markets and face difficulties in making exports. Over the last years, governments in OIC Member States have actively promoted trade by national firms and, increasingly, participation by SMEs to international activity. Trade Promotion Organisations (TPOs) have been an instrument of choice in many countries, to link local businesses with global markets and foster SMEs' exports.

However, policy making in the area of SME export promotion encounters an important limitation in the lack of data and evidence. Effective SME export promotion policies demand that policy makers identify the specific barriers that SMEs encounter when planning international business and operating in foreign markets. The present study addresses this policy challenge, by focusing on the main and common barriers for SMEs to compete in export markets and on the international policy experience to overcome these obstacles. The study investigates evidence in a sample of OIC Member countries, comments on knowledge gap and defines a detailed workplan for the full-fledged assessment of SME export promotion policies in OIC Member countries.

The report is composed of five sections. Chapter 1 discusses the key drivers and barriers to SME export activity and competitiveness in export markets and modes of SME internationalisation, based on the review of the literature and on recent evidence about export trends at the international level. In particular the chapter comments on characteristics and strategies of export-oriented firms and on specific operational challenges for SMEs internationalisation. It sets the conceptual analysis within the framework of current and emerging trends in global trade.

Chapter 2 reviews the international experience with policies and tools to help SMEs meet the challenge of globalisation and improve their export performance. The chapter distinguishes policies that address external and internal barriers to SME exports, discusses tools, institutions and good practices in OECD economies, focusing on the role of Trade Promotion Organisations (TPOs) and comments on the lessons learnt from these broad SME export promotion practices.

Based on the evidence from a sample of OIC member countries, Chapter 3 analyses key common challenges to SME export and competitiveness in export markets. Three sub-groups of countries are identified for this purpose: Sub-Saharan Africa (Burkina Faso, Uganda, Cameroon and Senegal); MENA countries (Egypt, Saudi Arabia and Yemen), and Asia (Malaysia, Indonesia and Bangladesh). For each sub-group, the chapter examines general macroeconomic conditions, nature and scope of interdependencies, and comments, for each individual country, about the role of SMEs in economic development, and about the main barriers to SME development and exports.

Chapter 4 presents a review of SME export support policies and programmes in the selected sample of OIC member countries, as implemented by different agencies, including Ministries, public financial and Trade promotion Organisations, and donors, among others. The chapter illustrates the variety of policy approaches in the countries under study and examples of policies and tools implemented to address different types of barriers to SME exports.

Chapter 5 concludes by highlighting key challenges to SME export development in the different areas analysed and by advancing recommendations on key policy areas to foster SME export competitivenes. The Chapter also highlights important information gaps, which limit policy design, implementation and evaluation, and, based on OECD methodology, proposes a framework for further study, to conduct rigorous assessment of policies intended to foster SME export competitiveness in OIC Member countries

CHAPTER 1. INTERNATIONALISATION AND EXPORTS OF SMALL AND MEDIUM SIZED ENTERPRISES: TOWARDS A CONCEPTUAL FRAMEWORK

1.1. What do we mean by Business Internationalisation?

The internationalisation of businesses and firms is defined as the process by which firms increase their involvement in international operations (Welch and Luostarinen, 1988). The idea of internationalisation as a process is also confirmed by the OECD (1998) which states that internationalisation occurs when a firm is "… seeking to compete beyond its national borders" (OECD, 1998, p. 7). Others have explained internationalisation from a procedural and organisational point of view as "the process of adapting a firm's operations (strategy, structure, resources, etc.) to international environments" (Calof and Beamish (1995). It has been argued that the internationalisation process is more dependent on creating and exploiting opportunities than on reducing uncertainties such as the new culture in the foreign country (Johanson and Vahlne, 2009). In order to be successful in entering a new market the firm needs to become an insider, which means being a part of the foreign market's business network (Johanson and Vahlne, 2009).

The general proposition made by many writers on the subject is that internationalisation is not a single event, but rather an on-going flow of events over time (Jones and Coviello, 2005). It is also noted that the context of internationalisation concerns the situation, the surroundings, the environment, the location and the conditions where internationalisation processes and content are observed. Over the years research on internationalization has covered issues of international trade, market entry, the specific role of SMEs in international markets, the prospects of new business creation in foreign countries, and involvement in global supply chains, production networks.

Exports constitute a major component of business internationalisation. Not all businesses, and especially smaller firms, find it easy to consider foreign direct investment, strategic alliances, direct technology transfer, joint venturing or co-production.

International trade has expanded rapidly within the past five decades (World Trade Organisation, 2009). It is estimated that the value of worldwide export activity has grown in excess of US$5 trillion annually (World Bank, 2009), accounting for more than 10% of global economic activity (e.g. International Monetary Fund, 2009). Between 2000 and 2011 world export figures (see Table 1.1) indicate buoyant growth which then fell between the global recession periods of 2008-9, and picked up again in 2010-11. Exports to and from three key categories of countries (developed economies, Asia Pacific and Commonwealth of Independent States (CIS)) increased between 2000 and 2011. The total of exports from developed economies to the rest of the world and to the Asia Pacific region doubled between these years. However, when we compare overall world exports to developed economies with intra-developed economy exports, the figures for the latter are significantly lower than the former. This flow of exports would be in line with received wisdom about the opening up of the global market for exports and the faster pace of growth of exports from Asia Pacific countries.

Table 1.1. World exports by provenance and destination, 2000-2011

From / To	Year	World	Dev. Eco*	Dev. Eco and Asia	Asia	CIS
World	**2000**	6,337,728	4,374,811	4,865,867	413,656	77,400
	2008	15,944,019	9,579,224	10,907,672	811,553	516,895
	2009	12,400,610	7,209,429	8,131,100	608,252	313,419
	2010	15,032,972	8,403,203	8,956,589	153,677	399,709
	2011	17,831,769	9,744,886	11,133,418	909,720	478,812
		World	**Dev. Eco**	**Asia**		
Dev. Eco and Asia	**2000**	556,339	283,778	30,765		
	2008	998,843	383,873	80,118		
	2009	759,418	268,557	57,392		
	2010	1,007,411	331,697	73,639		
	2011	1,106,448	364,474	85,517		

* Developed Economies
Source: 2011 International Trade Statistics Yearbook, UN Comtrade Yearbook, 2011

1.2. Internationalisation and SMEs

Internationalisation among small and medium-sized enterprises (SMEs) is a topic of considerable relevance, due mainly to the growth effects of cross-border venturing, and the demonstrated capacity of SMEs to drive economic development at national, regional and global levels (OECD, 2009). Over the last few decades, many SMEs explored international venturing as a requirement of business success (Knowles et al., 2006; Rundh, 2007; Saixing et al., 2009). Many firms elected to operate internationally as proactive players in the global economy (Zain and Ng, 2006; Brouthers and Nakos, 2004). The experience of internationalization by SMEs is sometimes comparable to those of large firms.

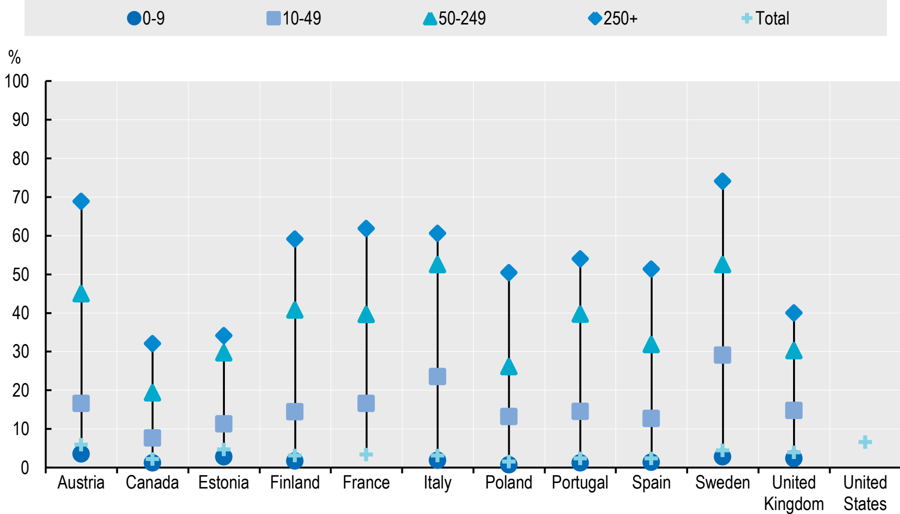
What helps facilitate opportunities for SME internationalization are the considerable advances in technology and the reduction of costs of international transportation and communication, the lowering of trade barriers, the shortening of product and technology life cycles, and large multinational enterprises both collaborating and competing against SMEs in their own domestic market (Rasmussen et al., 2001; Etemad, 2004).

Despite these advantages, the SME share in the total value of international trade is often found to be markedly lower than their share in gross domestic product (GDP). There is some evidence of the barriers facing SMEs seeking to access international markets (OECD, 2008, 2013). Across countries at different levels of development, the distribution of export is highly skewed in the business population. This means that a few firms generally dominate a country's share of export. These are mainly large firms, whereas SMEs appear to be under-represented in the international economy relative to their contribution to national and regional economies. Figure 1.1 illustrates that, in a large number of OECD countries, SMEs have a much lower propensity to export than large firms.

In other words, it is common to observe that countries' extensive margin of exports, i.e. the number of firms selling abroad is driven by firms with more than 249 employees. The relationship between firm size and export propensity holds when differentiating between micro, small and medium sized firms. Specifically, the share of exporting small firms (10-49 employees) is larger than that of micro firms (1-9 employees), while medium-sized firms are by far the most exporting sub group of SMEs. This pattern suggests that SMEs as a whole display substantial differences in their propensity to export. In

this regard, it is interesting to note that, in a few countries, such as Italy, medium-sized firms exhibit a propensity to export that is to the one of large corporations.

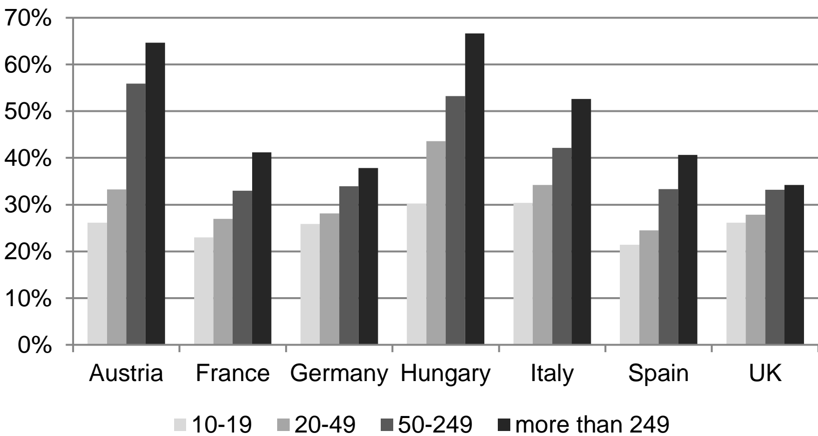
Figure 1.1 Export Propensity, by firm size, 2008



Source: OECD TEC database.

The large firms' dominance in internationalisation is confirmed when looking at the intensive margin of exports, i.e. the share of firm turnover which is sold in foreign markets. Figure 1.2 illustrates the export share of firms located in several European countries and shows that the export share of large firms is about twice that of micro firms, while medium-sized firms still export around 50% more of their turnover than firms with less than 20 employees (OECD, 2013). However, the above figures may hide the role SMEs play as intermediary suppliers to larger firms exporting goods for the end-user.

Figure 1.2. Share of exported turnover, by firm size



Source: Barba Navaretti et al. (2011).

The propensity of SMEs to undertake FDI is even lower than their participation in exporting. For this mode of internationalisation, which entails the highest fixed costs, the share of large firms with affiliates is far greater than that of micro, small or medium sized firms. In the UK for example, the share of large firms with affiliates abroad is twice that of medium sized firms, while in Italy and Germany the difference is roughly fourfold (OECD, 2013).

1.2.1. Why Do SMEs Need to Internationalise?

Globalization increases the exposure of SMEs to the risk of failure if they choose to concentrate exclusively on their domestic market. A firm's growth outside its own country is more crucial than growth inside the domestic location only (Sikorski and Menkhoff, 2000; Manolova et al., 2002). Domestic business environments have become increasingly affected by international economic factors, and the capability for small firms to isolate themselves from foreign competition has diminished, especially for firms that operate in global industries (Anderson et al., 2004).

1.2.2. The Importance of Exports for SMEs

Exporting is considered to be the most used strategy for SMEs because of the lack of resources (Dalli, 1995) and certain degree of market knowledge and experience (Root, 1994). At the micro level the benefits that exporting organisations accrue are numerous. Export activity boosts corporate growth and ensures company survival in the long term (Sousa, Martínez-López and Coelho, 2008; Samiee and Walters, 1990, and it is an important route that firms use to increase their revenue (Morgan, Vorhies and Schlegelmilch, 2006).

At the macro level, export activity among SMEs has shown the capacity to drive economic development (OECD, 2009). Export business integrates countries into the world economy and mitigates them from external shocks from other countries. In addition to this, export business serves as a source of foreign exchange for countries and reduces the potential balance of payment problems. Firms' exports create employment in the domestic economy, which in turn increases consumption and private spending. Furthermore, openness to trade improves international negotiations concerning trade and tariff issues, and countries can use this platform for their own benefit and build their respective welfare positions concerning trade barriers (Maneschiöld, 2008).

Despite the importance of export activities to the success of many firms, Leonidou (1995) observes that exporting is not without its challenges. The plethora of challenges can be enormous, including regulatory, attitudinal, structural, procedural and operational difficulties.

1.2.3. International Entrepreneurship: Creating New Businesses through Internationalisation

How SMEs can best function in a highly volatile environment is dependent on their entrepreneurial orientation which is characterised by innovativeness, proactiveness and the capacity or willingness of the firm to take risks (Patel and D'Souza, 2009; Balabanis and Katsikeas, 2003; Lumpkin and Dess, 1996; Miller, 1983). International entrepreneurship deals with innovative, proactive and risk-seeking behaviour that traverses national borders (McDougall and Oviatt, 2000). Since the late 1980s it has been observed that an increasing number of new ventures in different countries around the world perceived their operating domain to be international at or near inception (McDougall, 2000).

1.3. SMEs Entrepreneurial Orientation and Exporting Capability

The entrepreneurial orientation of firms has attracted considerable amount of attention in recent times not least because of the ability of these firms to innovate, be pro-active and take risks. These competencies are not often available in larger businesses. Research evidence suggests that there is a positive relationship between these three dimensions of entrepreneurial orientation and firm performance (e.g. Covin and Slevin, 1991; Dess, Lumpkin and Covin, 1997; Becherer and Maurer, 1997; Zahra and Covin, 1995; Atuahene-Gima and Ko, 2001).

1.3.1.Innovativeness

Innovation is defined as an introduction of a new product, a new process or a new organisational arrangement, opening or identifying a new market and as the conquest of a new source of supply of raw materials or half manufactured goods (Schumpeter, 1934). Innovation is considered to be an important element of a firm's strategy to gain competitive advantage and maintain its dominant position in the market.

International trade models developed by Vernon (1966) and Krugman (1979), amongst others, suggest that innovation is the driving force behind exports. As developing countries imitate the innovative products exported from developed countries, they will later be able to export these matured products. For developed countries, they have to innovate to keep up their export and income. More recently, Grossman and Helpman (1991, 1995) in their monopolistic model, show that certain factors (technological innovation) could shift a country's export demand curve outwards.

At the firm level, it has been argued that innovating firms have incentives to expand into other markets so as to earn higher returns from their investment (Teece, 1986). Innovating firms will obtain and sustain their competitive advantage not only in the domestic market but also to enter the global market. Therefore, we can expect a positive linkage between innovation and exports. Local suppliers and partners can get closely involved in the innovation process, thus ensuring a better match with customers' requirements (Mitra and Abubakar, 2009). Despite problems of endogeneity (innovation affects performance but improved performance may affect innovation) most studies controlling for endogeneity confirm the positive relationship.

Technological advancements explain, in part, superior export performance. The characteristics of the specific technological and learning processes affect the relationship between technological investments, innovation, and export market gains according to the technological intensity of sectors (Montobbio and Rampa, 2005).

Firms enjoy benefits of the innovation in terms of cost reductions, new markets and potential monopoly rents (Wakelin (1998). Innovating and non-innovating firms behave differently both in terms of probability of exporting and the level of exports, implying that the capacity to innovate changes the behaviour of the firm. Another result of the Wakelin (1998) study is that the production of innovations at sector level improves the probability of all firms exporting, no matter if they are innovative or not, which implies that the innovative environment is important and would encourage firms to export, even though the same relationship was not supported by the results of the export propensity. This might indicate that positive spill-over effects are significant for the increase of probability for first-time exporters, but not for the increase of export propensity.

1.3.2.Proactiveness

Proactiveness, as described by Kropp et al. (2005), is the opportunity-seeking and forward-looking perspective that involves introducing new products/services and acting in anticipation of future demand. Entrepreneurial firms demonstrate proactive behaviour when they monitor trends in their environments for opportunities that could be explored and exploited to their advantage (Shane and Venkatraman, 2000; Brown, Davidsson and Wiklund, 2001). In addition, proactive firms are those that visualise market opportunities by taking the lead to introduce new products, technologies and procedures to the market ahead of the competition (Eckhardt and Shane, 2003). Proactive behaviour has to do with the initiation of exporting as a deliberate management activity versus initiation of exporting as a result of an unsolicited export order (Samiee, Walters and Dubois, 1993; Yeoh and Jeong, 1995; Shoham, 2006; Balabanis and Katsikea, 2003).

Proactiveness is also related to anticipating and acting on future wants and needs in the market, which would enable a firm to gain first-mover advantage vis-à-vis the competition (Lumpkin and Dess, 1996). Compared to innovativeness that focuses on creating novel combinations of product and administrative dimensions, proactiveness focuses more on a firm's initiative. Proactive organisations shape their environments by actively seeking and exploiting opportunities (Krueger, 1993).

1.3.3. Risk-Taking

Entrepreneurial orientation has also been conceptualised as a propensity for taking risks. It is a relatively stable characteristic but can be modified through experience (Leko-Šimi and Horvat, 2006). It is argued that export related risk-taking distinguishes firms that are willing to commit a large portion of their resources to untried new export markets from firms that adopt a "wait and see" attitude towards new export opportunities.

Exporting provides additional revenue to firms which will help them to lower exposure to financial risks. Owners/managers of firms which have an international vision, favourable perception and attitudes toward exports, are willing to take risks and have the capacity to engage positively in export activities likely to lead a company to export success (Abby and Slater, 1989).

1.4. Internationalisation and Export Performance

Operating effectively in export markets necessitates measuring export performance However, there is a range of divergent views on what constitutes export performance in the literature (Katsikeas et al., 2000; Lages and Montgomery, 2004; Ibeh, 2004; Toften, 2005; Shamsuddoha and Ali, 2006; Belso-Martinez, 2006; Altintas, 2007).

In the literature, two lines of inquiry can be distinguished: the first one investigates performance consequences from varying degrees of internationalisation while the second one discusses a firm's specific differences as decisive factors that might be responsible for differences in the internationalisation-performance relationship (Lu and Beamish, 2004).

A consensus view suggests that performance is a "multidimensional construct" comprising effectiveness (meaning the extent to which organisational goals and objectives are achieved), efficiency (which is the ratio of performance outcomes to the inputs required to achieve them) and adaptability (the organisation's ability to respond to environmental changes) (Voerman, 2003).

Interest in export performance was activated by the low export performance of many countries that have the potential to be successful exporters and in the capability of macro-economic studies to clarify the different export performance of firms within the same industry and same country (Boukersi, 1990, cited in Boodai, 2001).

1.4.1. Measuring Export Performance – Firm Level

To help measure and improve the firm's exports a number of important variables can be considered. They include:

a) export marketing strategies (e.g. Leonidou, Katsikeas and Samiee, 2002; Cooper and Kleinschmidt, 1985; Hultman, Robson and Katsikeas, 2009; Katsikeas, Samiee and Theodosiou, 2006);
b) export firm characteristics (e.g. Burton and Schlegelmilch, 1987; Cavusgil and Kirpalani, 1993; Katsikeas and Morgan, 1994);
c) strategic orientations towards export markets (e.g. Cadogan, Kuivalainen and Sundqvist, 2009; Cadogan, Diamantopoulos and Siguaw, 2002; Rose and Shoham, 2002);

d) marketing capabilities (e.g. Morgan, Kaleka and Katsikeas, 2004; Zou, Fang and Zhao, 2003; Morgan et al., 2003);
e) export attitudes and commitment (e.g. Cicic, Patterson and Shoham, 2002; Evangelista, 1994);
f) key informational resources and skills (e.g. Piercy, Kaleka and Katsikeas, 1998; Morgan et al., 2003), firms' degree of internationalisation (Cadogan, Kuivalainen and Sundqvist, 2009; Kuivalainen, Sundqvist and Servais, 2007); and
g) firm-wide entrepreneurial orientation (e.g. Yeoh and Jeong, 1995; Robertson and Chetty, 2000; Balabanis and Katsikea, 2003).

More specifically firms can use objective and subjective measures. Typically, objective measures cover export volume, export sales' growth and export intensity. The last measure – export intensity – is perhaps one of the most popular objective measures used by analysts. Export intensity is the proportion of export sales to a firm's total sales. It is also referred to as export sales ratio. However, this measure provides no guarantee of sustained export profitability (Matthysens and Pauwels, 1996, cited in Watson, 2001), and it can be affected by factors other than better exporting operations. Additionally, it does not reflect the competitive dimensions of export success (Altintas et al., 2007). Export intensity can also be affected by sales volume (numerator) as well as the denominator, which means that firms may have high export intensity while they export in small volume (Sousa, 2004).

It has been further argued, that the close involvement of owner-mangers in most decisions made by SMEs means that subjective measures could be more appropriate for evaluating success (Louter et al., 1991). These subjective measures include 'softer' targets such as such as executives' and export managers' perceptions of export performance (Bilkey, 1985, cited in Shoobridge, 2004). The argument here is that a reasonable measure of success is the ability to meet a business's goals, and, therefore, any measure of export performance should include self-assessment of success (Vivekananda and Rajendran, 2006). Management expectations and commitment are important in export initiation, continuation and eventual export success (Cavusgil, 1984; Williams, 2002). Subjective measures allow for easier data collection.

1.4.2.Implications for Policy and Measurement at the System or Country Level

While it is problematic to equate or relate directly firm level performance measures with overall country level performance, it may be useful to obtain some insights for policy through a better understanding of entrepreneurial orientation of firms. This might enable governments to develop strategies with a specific focus. Such an approach could then direct government to:

a) provide adequate incentives based on monitoring firms which are better able to develop strategies for exporting because of their proactiveness;
b) generate indices for identifying and promoting firms which demonstrate better performance over time because of their proactiveness or innovation capabilities;
c) locate and target firms in specific growth sectors and in particular regions where performance indicators are stronger than in other areas; and
d) encourage the development of related import and FDI strategies to boost international trade.

Care has to be taken to ensure dynamic approaches to monitoring and development of policy so that changes in the structure and modes of internationalization are recognized across different firms, sectors and regions.

1.5. Internationalisation Strategies for SMEs

Internationalisation strategies can be developed at three levels:

a) strategic orientation (specialisation, domination by costs, differentiation, diversification, vertical integration, chain strategy);

b) the arrangements of international engagement (exporting, cooperative engagement, foreign direct investment) and;
c) competitive advantage (i.e. the positive attributes that differentiate a company or its product from its competitors in the eyes of its customers including product quality, prices levels, innovation, product adaptation, distribution arrangements, adapting the communication policy, listening quality, productivity).

The internationalization strategies of a SME will depend on its aptitude to mobilise internal resources and to identify the role of the institutional environment (Hamel and Prahalad, 1990; Arrègle, 2000). or SMEs to be competitive in the market place, they will have to offer good quality products, adapted to the requirements of the environment, at competitive prices. Consequently, they must use distribution systems, network efficiently, and communicate policies adapted to the requirements of the target markets. SMEs can obtain considerable learning opportunities while satisfying the diverse customer needs and responding to different competitors in international markets (Pangarkar 2008).

The need to collaborate and to achieve an international presence has become a necessity, especially for SMEs, but the challenges encountered with such strategies are high as it is not uncommon to see high failure rates (Spence et al. 2008). Internationalisation might lead to problems that are associated with liabilities of foreignness and smallness, and this may lead to poor financial performance coupled with other concerns for managers (Bell 1995; Lu and Beamish 2001). While internationalization can be perceived as opportunity-seeking choice on the part of firms, it may also represent a critical decision due to the costs and risks involved (Cheng an Yu 2008).

1.5.1.Specific Operational Challenges of Internationalisation for SMEs

Three main challenges for SME internationalization can be identified. First, they must evaluate whether, when, and how to operate overseas. Second, there is a need to design long-term planning processes and business systems to cope with the uncertainties and complexity associated with the internationalisation process. Third, internationalising SMEs must also attend to regulatory issues and payment security issues in both their own country and overseas (Anderson et al. 2001). Managers need to learn constantly during the progressive process of internationalization, and interact consistently through their personal and business networks. The biggest challenges for internationalisation, from the viewpoint of managers, are entry routes/methods, transport/logistic difficulties, awareness of tariffs and barriers and language problems. Payment issues also appear high on the list of challenges.

In general the constraints of management time lead smaller firms to take short-cuts in decision-making and information gathering. This could lead to disastrous outcomes (Buckley (1999). Internationalisation increases the requirements for coordination and communication among different units within SMEs and with third parties located in different geographic areas (Pangarkar 2008). Relative scale and resource disadvantages can impact adversely on the likelihood of success of their internationalization initiatives (Pangarkar 2008). It has also been argued that if SMEs are compared to large firms, SMEs are less competitive. They may not be able to capture business opportunities due to inferior products, shortages of finance and limited administrative capacity (Jansson and Sandberg (2008). Any foreign market initiative will soak up a larger proportion of resources of a SME than a large firm. In the event of failure of the particular initiative, the impact on a SME may be greater, which increases the risk levels of them (Lu and Beamish 2001).

1.5.2.Barriers to Exporting

There are different barriers to exporting. The advantage of exporting for a firm is that it avoids the cost of manufacturing in the host country. This might also be seen as a disadvantage if the costs of producing the goods are cheaper in the host country. However, a firm can gain substantial economies of scale from its global sales volume, when it is producing in the home country and exporting to

another country. Exporting firms also face disadvantages such as the cost of transportation, and even the low cost of the production of the goods in that host country (Hill, 2007). . A common theme that runs through many studies on export barriers (i.e. the actual barriers exporters encounter) (e.g. Fillis, 2002; Leonidou, 2004; Shaw and Darroch, 2004; Tesfom and Lut, 2006; Hutchinson et al., 2009; OECD, 2008, 2013) is that these barriers consist of both internal and external factors.

Internal Barriers

Internal export barriers consist of the inability of SMEs to initiate, develop and sustain export business because of problems the firm faces. These internal, firm-specific problems can be sub-divided into informational barriers, functional barriers, marketing barriers, logistical barriers, financial barriers and human resource barriers (e.g. Leonidou, 2004; Tesfom and Lut, 2006). In addition, the actual external barriers represent those that are exogenous to the SME (i.e. barriers emanating from the external environment). Researchers have sub-divided these types of barriers into industry barriers, procedural barriers, socio-cultural factors and customer barriers (i.e. customer perception of product characteristics and lack of government incentives (e.g. Leonidou, 2004; Tesfom and Lut, 2006).

According to a survey conducted jointly by OECD and APEC on both SMEs and policy makers, the majority of firms and governmental authorities rate barriers related to internal capabilities and resources as being more significant obstacles to internationalisation than those related to business environment. Specifically, when asked to rate a list of 47 barriers according to the degree to which they acted as an impediment to their ability to access international markets, SMEs participating in the survey considered problems “internal” to the firm to be more important barriers to access to international markets than barriers stemming from the home and foreign/host environment within which firms operate, including policy barriers (tariffs and regulations).

However, there appears to be a distinction between firms in terms of export activity. Non-active exporters tend to be more concerned with financial and access barriers, whereas firms that are already exporting prioritise issues related to overall business environment, including trade barriers. This distinction between inexperienced and experienced exporters is also present in other studies which indicate that firms with experience with foreign markets tend to pay more attention to barriers outside their control (Moini, 1997). These results suggest that SMEs undergo a learning process as they internationalise. Once firms overcome internal constraints they become more aware of other challenges in their business environment, including tariffs and other trade regulation.

The top ten barriers in the OECD-APEC policy makers’ survey relate almost exclusively to a lack of knowledge and internal resources, both financial resources and human resources. External barriers, especially those imposed by governments, scored relatively low (Table 1.1).

Table 1.2. Top ten barriers to SME internationalisation, as reported by policy makers, OECD countries

Rank-Weighted Factor	Description of Barrier
1	Inadequate quantity of and/or untrained personnel for internationalisation
2	Shortage of working capital to finance exports
3	Limited information to locate/analyse markets
4	Difficulty in identifying foreign business opportunities
5	lack of managerial time to deal with internationalisation
6	Inability to contact potential overseas customers
7	Difficulty in developing new products for foreign markets
8	Unfamiliar foreign business practices
9	Meeting export product quality/standard/specifications
10	Unfamiliar exporting procedures/paperwork

Source: OECD (2008).

External Barriers

A recent OECD study on access to "high growth markets", which also draws on surveys to both SMEs and policy makers, reveal that, when it comes to "unfamiliar markets", which are perceived to have higher entry barriers than traditional markets, SMEs are likely to evaluate external barriers more than policy makers. In particular, whereas high tariff barriers and some business barriers are commonly perceived to be severe by policy makers and SMEs , there appears to be a gap in perceptions with regard to the evaluation for governmental barriers, such as lack of home government assistance, restrictions to foreign ownership and movement of personnel, unequal treatment compared to domestic firms, or lack of transparency in laws and regulations in the foreign country (OECD, 2013).

Another problem faced especially by SMEs in developing countries is 'the country of origin effect' (Tesform and Lutz, 2006, p. 277). This effect implies that a product coming from a developing country might signal low confidence with regard to attitudes among international buyers towards the product compared with those coming from their developed counterparts.

1.5.3. Overcoming Barriers

SME's that are proactive, innovative and that have the ability to take risk, may be able to overcome the limitations and barriers referred to above. Despite the constraints, entrepreneurial oriented SME's may still be able to enhance their performance in exporting. One of the ways SMES have tried to overcome barriers to internationalization is by developing networking capability (Saarenketo et al. (2004). Various studies confirm that networking, building trusts, collaboration and relationship help SMEs to overcome the challenges in the internationalisation process (Jansson and Sandberg 2008). Due to lower transaction volume SMEs can be effective and efficient in coordinating internationalisation activities. SMEs can compensate for their liabilities of smallness through the establishment of inter-firm cooperations (Fink et al. 2008). Many

1.6. Networks and Networking

The business environment is today described by scholars as a web of networks which can be formal and informal. Networking is seen as a source of market information and knowledge, which are often acquired in longer terms when there are no relationships with the host country. Therefore, networks are a bridging mechanism that allow for rapid internationalisation (Mitgwe, 2006). The emphasis of the network approach is in bringing the involved parties closer by using the information that the firm

acquires by establishing close relationships with customers, suppliers, the industry, distributors, regulatory and public agencies as well as other market actors.

Networking capabilities are network characteristics, which consist of strong ties, building relationships and trust between partners. Network orientation is about initiation, coordination and learning, and network resources are about human resources, synergy sensitive and information sharing.

It has been noted that SME owner-managers' network relations with friends and family members are crucial to its development of internationalisation. For instance, there is abundant evidence of the positive impact of the role of informal networking relations on an SME's internationalisation development (e.g. Coviello and Munro, 1997; Meyer and Skak, 2002; Rutashobya and Jaensson, 2004).

Network structures can include vertical and horizontal relationships involving people, institutions and markets in various contexts, as Table 1.3 shows. In terms of the benefits of networking and their positive impact on SME export, it can be argued that if the export of SMEs from developed and other developing countries is facilitated, it seems plausible to argue that similar firms in developing countries will benefit even more from the impact of network relations on their internationalisation behaviour.

Table 1.3. : The Structure of Network Relations

	Business ties/economic exchange/contractual	**Social ties/ non-economic exchange/ non-contractual**	
Vertical	Present contacts: suppliers, agents and intermediaries, ancillary supplier of the firm	Former contacts: previous suppliers in the industry and previous operators in the ancillary support firms (i.e. packaging, R&D)	International/ domestic
Horizontal	State support agencies and export promotion agencies, sector trade associations, advisor/consultants, joint ventures, partner and other alliances	Competitor, community organisation, friends, acquaintances, family members	International/ domestic

Source: Adapted from Evers and O'Gorman (2008, p. 40).

As regards the strengths and weaknesses of network theory in the light of SME internationalisation, numerous researchers (e.g. Coviello and Munro, 1997; Chetty and Holm, 2000; Gemser et al., 2004; Ruzzier and Antoncic, 2007) have contended that SME have derived much benefit in developing export activity from their diverse network relations, depending on the market. For example diaspora communities around the world have been better able to engage in business networking across borders that draws on kinship and familial contacts. A good example of a highly successful linkage between diaspora immigrant communities is the well documented experience of Chinese networks which connect business activities in mainland China to Hong Kong, Europe and the USA. Saxenian (2006) develops the idea od brain circulation which connects young entrepreneurs from China, India, Taiwan and Israel to the USA through their alma mater and their initial employment in the USA. Often the latter experience results in spin-off activities which they can operate in theor home countries while keeping substantive business links in the US.

1.7. Current and Emerging Trends

1.7.1. Global Networks of Innovative firms – SMEs with larger firms

One of the outcomes of networking among firms in global communities of varying interest is the distributed innovation process. If firms operate across borders directly or indirectly, and especially as part of a cluster of firms with mixed forms organisation, then collective forms of learning enable firms to manage the external relationships, albeit at various levels for different types of firms. In this scenario the locus of control for innovation and internationalisation has shifted in part from the owner-manager to outside the boundaries of the firm. This poses a difficult problem for the typical owner-manager who is 'naturally' tuned into control structures that lend themselves to hierarchical governance systems that follow the growth of firms.

In isolation, growth through internationalisation opens up opportunities for the control of intellectual property rights, and the development of appropriate management systems to reduce transaction costs emanating from co-ordination. This is also is a challenge for owner-managers of growing firms who find it hard to relinquish control to managers.

The dependency on multiple levels of skills, knowledge and financial resources across geographical space, coupled with the uncertainty surrounding the pace of change in product development or the extension of the value chain for both products and services, call for a greater degree of reliance on the socialisation process and the corollaries of sharing and trust building. This form of interactivity is perhaps most evident in the global production networks found especially in South-East Asia as in the Pearl River delta. These networks involve large multinationals working closely with large local contractors who in turn engage significant numbers of small firms.

1.7.2. Local clusters and global production networks

Several studies on regional development (Coe, et al, 2008, Harrison, 2007; Pike; 2007; Yeung, 2005, 2010) have begun to analyse the intricate relationship between regional change and globalisation and the particular arrangements created by global production networks (GPNs) emphasising the specific and varied nature relationships between key actors that distinguish these GPNs.

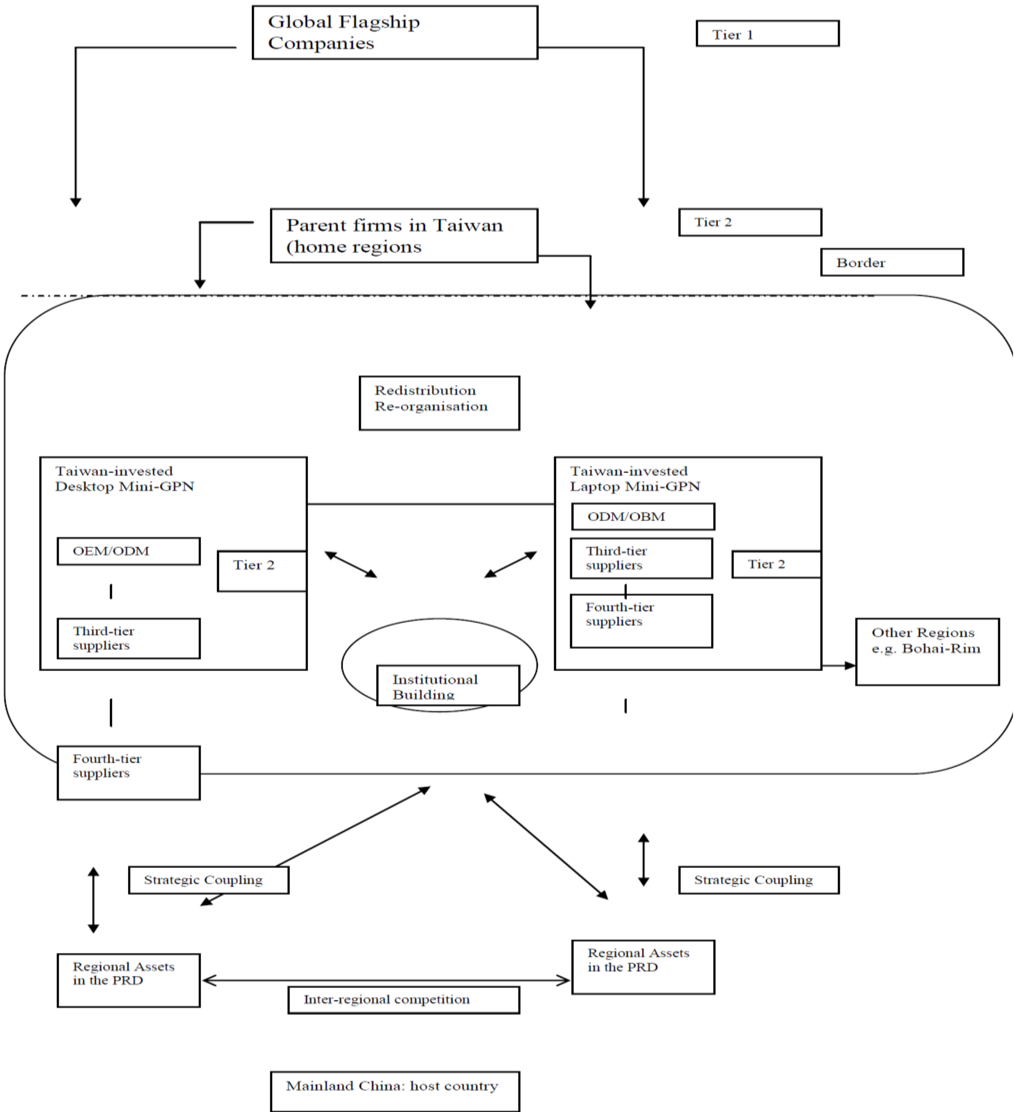
What occurs is a form of "strategic coupling" of various economic actors, including small, medium and large firms together with their lead firms which "orchestrate trans-regional networks on a global scale" The firms (both regional and lead) and the institutions are part of the GPNs. In these networks both firms and institutions play major roles. Firms are truly entrepreneurial in that they not only produce new goods and provide new services, but more importantly, they actively shape the regional economic landscape, enabling cluster formation, promoting inter-regional competition for investment and technologies, and the creation of what McKendrick refers to as 'economic space'

Figure 1.3 illustrates the structure of a GPN and the levels of inter-regional competition for investments. Yang (2010), contrasting Taiwan and China, suggests the nature of the relationships in this 'coupling' changes over time and are dependent on different geographical contexts. The difference between strategic coupling of regional development in China and other East Asian regions is explained by the fact that China lacks large local business firms, while in other parts of East Asia, such firms actively co-operate with lead firms. The state and local initiatives also play a big role in China. Various tiers of Taiwanese computer firms drive the strategic coupling of regional development in the Pearl River and Yangste River deltas. More specifically he notes that the desk top cluster in Dongguan has been driven by bottom-up dynamics of Taiwanese their-tier firms without the need for local initiatives, while the notebook cluster in Suzhou has to a great extent been initiated by top-down local government actions. In both scenarios we find a region evolving as an entrepreneurial entity based on different forms of strategic coupling between global lead firms, regional large firms, local firms and

institutions. Firms are the main engines for driving production but it is in the interplay between different types of firms, their constant re-organisation to adjust to different market imperatives and technological changes, and clever use of relational assets with institutions, that we find the manifestations of growth and development.

Mathews (2005, 2006) and Kenny and Florida (2004) have shown that flexibility and speed are probably more important considerations. The organisation of production in a fast changing and highly competitive world with rapid changes in technology requires greater levels of innovative organisational arrangements. Reorganising production in the past would have required the relocation of plants and production somewhere else. Innovations currently in vogue and which help firms to improve the flexibility of their operations include outsourcing, OEM, ODM, CM and EMS arrangements. These arrangements help to foster various forms of GPNs and the global orientation of manufacturing.

Figure 1.3 Inter-regional competition for Taiwan investment in the Pearl River Delta (PRD) and the Yangste River Delta (YRD) in the global production networks: a trans-local analytical framework



Source: Yang (2010)

Enabling and supplementing organisational innovation is technological changes and usage capabilities. Electronic data interchange (EDI) with customers and suppliers, internet-based integration of manufacturing and service sectors, end-user platforms bringing users of products and services upstream with producers, enterprise resource planning systems, third party logistics, global tracking and information systems, are critical technologies at work today. The upshot of the use of such technological capabilities is the increasing specialisation of production and manufacturing together with connections with different parts of the value chain across different regions in automobile, clothing, electronics logistics and retailing sectors. New business models accommodate such specialisation and connectivity with global lead firms engaged in research and development (upstream) and marketing, distribution, and post-sale services (downstream), and international strategic and supply chain partners in charge of the rest of the value chain.

Talent, technologies, institutions remain the key drivers of regional development in a globalised world. What appears to have changed is the new embeddedness of globalised resources in regions and the networks of production systems connecting these regions. Enabling much of this change process is organisational and technological innovation harnessed and activated by the search and realisation of new opportunities by entrepreneurs (Mitra, 2012).

At the industry level globalisation refers to the degree to which a firm within that industry has its competitive position interdependent with the competitive position in another country. This global interdependence allows it to leverage technology, manufacturing, prowess, brand names and capital across borders. This degree of interdependence tends to favour larger firms such as Nokia, Motorola, Samsung, Sony Ericsson, Coca Cola, Pepsi Cola Cadbury Schweppes (Gupta, et al , 2008) . However, this analysis ignores the role of small innovative firms on two counts:

a) the role that many small firms play in sub-contracting work with larger forms or in some cases licensing technologies to larger firms; and
b) the opportunities for fairly small players to enter the global market independently through the internet and through portals and platforms such as E-bay or Amazon, and increasingly through the so-called “Apps” or applications world of web based technologies and Cloud Computing.

Shifting trade: the role of emerging markets

Emerging markets have become the world’s growth centres and source of opportunities for firms in advanced and developing countries. Emerging economies have experienced sustained economic growth since the 1990s and have led world economic growth, especially during the recent global financial and economic crisis and the uneven recovery.

Over the 2000s, the rapid growth of developing countries had a considerable effect on the trade structure of OECD countries. Regarding exports, from 2000 to 2009, in almost all OECD countries the annual average growth rate of exports to non-OECD countries exceeded that to OECD countries. As many governments in OECD countries search for new sources of economic growth, in the context of stagnant domestic demand and public-sector budget cuts, participation in these expanding growth markets is increasingly perceived as an important strategy to re-activate growth dynamics.

The drastic changes in global growth and trade dynamics may open up opportunities for SMEs in international markets. However, the regulatory framework of some high-growth economies makes it more difficult for SMEs to enter the markets, which can be characterised by an unpredictable business environment (e.g. frequent regulatory changes, weak protection of property rights, non-transparent judicial systems and inadequate enforcement of commercial law), and specific institutional constraints (Luo and Tung, 2007). All these factors create additional challenges for foreign investors and pose an even greater challenge to SMEs, which are typically resource constrained and less experienced than large enterprises (OECD, 2013).

CHAPTER 2. SME EXPORT PROMOTION POLICIES: THE INTERNATIONAL EXPERIENCE

2.1. The rationale for policy support to SME export

The numerous benefits to SMEs engaged in international business are well documented. As outlined in Chapter 1, a considerable body of evidence shows that international trading activity stimulates productivity growth by strengthening competition and innovation and increasing access to new ideas and technology. International trading activity enables businesses to achieve growth and economies of scale which domestic markets alone would not provide. Exporters are consistently found to out-perform non-exporters using a variety of measures of success. Exporting firms have higher value added, employ more, and are more capital-intensive and productive than non-exporting firms. This may be related to both "self-selection" by more productive firms, which are more likely to start exporting than less productive firms, and to "learning-by-exporting", whereby firms become more productive as they export.

Nevertheless, across countries at different levels of development, SMEs are under-represented in international activity relative to their contribution in national and local economies, which suggests of the barriers facing SMEs seeking to access international markets. Policy makers have increasingly recognized that barriers to SME internationalisation have the effect of reducing the capacity of their economies to reap the full benefits from globalization and, especially, the ability of innovative and high-growth firms to achieve their full potential from international markets. In fact, any barriers to international trade are likely to impinge disproportionately on export-oriented SMEs, which are often the most productive, R&D-intensive and growth-orientated and thus, potentially, the strongest contributors to a dynamic national economy. However, the

Over the last decades, a wide range of policy instruments and institutions aimed at supporting the international SME have emerged in many countries, although the specific stage of development of a country determines to some extent what type of growth-orientation can be supported and which firms are most likely to benefit from facilitative policies. These largely address the typical resource-constraints of SMEs, but also the rigidity or burden that may be imposed on SMEs by general business framework conditions and other government policies or regulations. In other terms, policy initiatives also follow the recognition that "government failures" contribute to make SME internationalisation more difficult and demand correction.

To promote SMEs' participation in foreign markets, it is essential for policy makers to identify the specific barriers that SMEs and entrepreneurs encounter when planning international business and operating in foreign markets. Following the classification introduced in Chapter 1, the present chapter distinguishes internal and external barriers to SME export and provide examples of policy approaches and tools implemented across different countries to address these specific barriers. Based on a recent survey of policy makers in OECD countries, Table 2.1 maps some key initiatives undertaken in selected countries to increase SMEs' participation to international trade. These measures address different areas and adopt diverse approaches, whose features are commented in the following paragraphs.

Table 2.1. Public support measures to SME export by OECD countries

	Supply of Information		Support of International Activity			Financial Support		Human Resource Support	Other	Trade supporting organization
	Portal Service	Consultation, Marketing Support	Trade fair, Mission	GVC Finding customers in foreign markets	Innovation, Productivity Improvement	Loan, Grant	Insurance			
Australia	1) business.gov.au 2) IP Australia			Supplier Access to Major Projects (SAMP)	1) The R&D Tax Incentive 2) The Cooperative Research Centres (CRC) program 3) The Clean Technology Innovation Program	Export Finance and Insurance Corporation (EFIC)	Export Finance and Insurance Corporation (EFIC)		1) Automotive Market Access Program 2) Buy Australian at Home and Abroad initiative 3) Export Market Development Grants (EMDG)	AUSTRADE
Austria	Internationalisation Initiative	1) Lfe Science Austria 2) Internationali-sation Initiative	1) Lfe Science Austria 2) International-isation Initiative					Internationalisation Initiative		
Canada	Virtual Trade Commissioner				1) International Science and Technology Partnership Program 2) Going Global Innovation Program	1) Export Development Canada (EDC) - Credit insurance organization 2) Market Xpansion Loan	Export Development Canada (EDC) - Credit insurance organization		1) "Seizing Global Advantage. A Global Commerce Strategy for Securing Canada's Growth and Prosperity" 2) Global commerce Support Program (GCSP)	Canadian Trade Commission-er Service (TCS)
Czech Republic	Operational Programme Enterprise and Innovation	Czech Export Hotline (Business info.cz)				Czech Export Bank				
Denmark		Vitus Growth				Export Start Growth Vitus Growth				
Greece		Single window for Exports				Loan by ETEAN SA Fund	1) Short term export credit insurance 2) EXTROVER-SION			

	Supply of Information		Support of International Activity			Financial Support				
	Portal Service	**Consultation, Marketing Support**	**Trade fair, Mission**	**GVC Finding customers in foreign markets**	**Innovation, Productivity Improvement**	**Loan, Grant**	**Insurance**	**Human Resource Support**	**Other**	**Trade supporting organization**
Ireland		1) International Selling Programme 2) Internaionali-sation Grant				1)Internaionali-sation Grant 2) Going Global Fund		Leadership4Growth Programme		
Israel		1)Marketing Consulting for Export SME's Program 2) 200 double 2 3)Tevel								
Korea	1) Export capacity enhancement project 2) Support programme for businesses' overseas marketing efforts	1) Export capacity enhancement project 2) Support programme for businesses' overseas marketing efforts	Overseas Exhibition Support programme for businesses' overseas marketing efforts		Support for acquisition of certifications in foreign standards		Short-term Export Insurance (Agro-fishery Export Package insurance)	Support programme for businesses' overseas marketing efforts		1) KOTRA 2) Export consortium
Mexico			International Trade Fair		Mexico-EU Programme for competitiveness and innovation			Graduate in International business		
New Zealand		1)International Business Growth Service 2)Beachhead program		Industry Capability Network		International Growth Funds	Export credit office		NZ-CHINA FAT	
Poland	Portal for Exporters									
Portugal		Export Shops	SME Qualification and Internationalization Incentive System		Support to the Internationalization of Patents	1) Venture capital support 2) QREN Investe		1) Inov Contacto 2) INOV-Export		
Slovenia	IzvoznoOKno web portal					Co-financing individual or group participations of enterprises in trade fairs				

	Supply of Information		Support of International Activity			Financial Support		Human Resource Support	Other	Trade supporting organization
	Portal Service	Consultation, Marketing Support	Trade fair, Mission	GVC Finding customers in foreign markets	Innovation, Productivity Improvement	Loan, Grant	Insurance			
Sweden	1) Enterprise Europe Network 2) Supply of local information (Swedish Trade)	Consulting (Swedish Trade)	1) Enterprise Europe Network 2) Supply of local information (Swedish Trade)					Assistance of training/employment (Swedish Trade)		Swedish Trade Council
Turkey		State Aid for Market Research and Marketing Projects			Patent Application Promotion and Support Programme	Supports for participating in the international fairs (Kosgeb)	Export Credit (Kosgeb)			KOSGEB

Source: OECD (2012), A Survey of Policy Makers for the OECD project on Fostering Small and Medium-sized Firms' Participation in Global Markets, OECD Centre for Entrepreneurship, SMEs and Local Development.

2.2. Policy delivery modes

Support to SMEs may be delivered by governments in accordance with rather diverse models, engaging different types of agencies, targeting particular firms and delivering services in different ways. For example, programmes may be delivered at the regional level or nation-wide. This may reflect differing political structures, such as federal, centralised or devolved authority. In OECD countries, often there is a unique relationship between central and regional authorities whereby responsibility for government support for business is clearly owned by one or shared between them. Secondly, programmes may focus on SMEs or similar segments or be open to all firms irrespective of size. Whilst SMEs tend to be the focus of much support, larger companies also receive help from government in areas such as training and foreign direct investment. A third dimension concerns the sector orientation of programmes, which may target a specific area or be open to all firms irrespective of sector. Contemporary competitive pressures have led to considerable investment in innovative hi-tech and R&D companies in many economies. At the same time, sectors such as agriculture have remained equally important for political and economic well-being and have also attracted special support in some OECD economies. In these areas, there may be overlap between general internationalisation support and sector-specific actions by government.

Support to firms may be delivered by different players: government agencies, government-owned banks or public service providers, as well as private institutions, when part of the cost is paid by government agencies. Since the 1960s, national Trade Promotion Organisations (TPOs), which are most often state organs, have become the central institution for many countries' export promotion efforts, delivering commercial intelligence, markets research, promotion services, training and advice (De Wulf, 2001).

The dimensions discussed above may be configured in a number of ways to arrive at a particular government support structure. OECD (2008) proposes a framework, shown in Table 2.2, to provide a basis for analysing government support structures.

Table 2.2. Structure of Government Support Programmes

<table>
<tr>
<td rowspan="3">Service focus
• Access
o General market information
o Specific market analysis
o Trade fairs and trade missions
o Direct support through foreign representation
o Inward market access
• Financial
o Export insurance and loan guarantees
o Development finance and venture finance
o Direct financial support
• Capabilities
o Capabilities linked to human capital
o Capabilities linked to process and product technologies
o Capabilities linked to logistics and IT
• Business Environment
o International trade conditions
o Home market conditions
o Regulatory developments</td>
<td>Mode of international activity
• Exporting
• Importing
• Foreign operations and collaborations</td>
</tr>
<tr>
<td>Target group
• Regional vs. national
• All SMEs vs. specific segments
• Specific sectors vs. all sectors</td>
</tr>
<tr>
<td>Provision of support
• Government agencies
• Affiliated service providers
• Public institutions
• Private firms
• Independent service providers</td>
</tr>
</table>

Source: OECD (2008).

2.3. Global strategies and targeted policies

As illustrated in Chapter 1, SME internationalisation is a multi-dimensional phenomenon, and export itself is often related to or enhanced by other forms of international linkages. Accordingly, policy measures to enhance the internationalisation of firms tend to cover a broad range of activities and areas. In this regard, a distinction can be made between the formulation of a broad strategy for firms' internationalisation, often linked to encompassing growth and development national plans, and the definition of strategies for specific markets.

Under the first category, the strategy announced by Canada in 2009 is an example of a comprehensive approach towards business internationalisation, which includes also attracting foreign investments and linking local firms with global knowledge networks (Box 2.1).

Under the second category are policies that recognise that external barriers to SME export may differ significantly by area or country. For instance, new foreign markets, especially those of emerging markets, are perceived by SMEs and policy makers to have higher barriers than traditional markets, in terms of lack of transparency of laws and regulations, inadequate property rights protection, and complex procedures (OECD, 2013). Therefore, there is a rationale for governments to formulate a specific strategy of entry for some key target market. In recent years, this has been the case for high-growth markets, such as BRICS, identified by many governments as an important source of growth and as key to future positioning in the global competition. This is the intention, for instance, of New Zealand's internationalisation strategy and its targeted actions for different markets. In the case of China, a specific strategy has been devised ("Opening doors to China: New Zealand's 2015 Vision"), which moves from an assessment of strengths and weaknesses in New Zealand's current approach to the Chinese market, to define goals and priority actions.

Box 2.1. "Seizing Global Advantage. A Global Commerce Strategy for Securing Canada's Growth and Prosperity"

In 2009, the Government of Canada announced its strategy to seize foreign markets as part of a commitment to building a stronger, more competitive Canadian economy that will thrive in the years ahead.

Under the Global Commerce Strategy, the federal government works towards:

- Securing favourable terms of access to the markets, investment and innovation opportunities where Canadian commercial interests are greatest.
- Attracting global investment and innovation to Canada and facilitating Canadian commercial engagement abroad.
- Expanding Canada's international commercial network to ensure Canadian companies have the support they need to capitalize on opportunities across the entire spectrum of modern business.

Through its Global Commerce Strategy, Canada's Government is taking action to:

- Boost Canadian commercial engagement in global value chains;
- Secure competitive terms of access to global markets and networks for Canadian businesses;
- Increase foreign direct investment in Canada and Canadian direct investment around the world; and
- Forge stronger linkages between Canada's science and technology community and global innovation networks.

Source: OECD (2013).

2.4. Policy measures to reduce external barriers

External barriers are intended as barriers stemming from the home and target business/host environment and include (OECD, 2008, 2013):

i. Procedural Barriers: barriers associated with the operating aspects of transactions with foreign customers;
ii. Governmental Barriers: Barriers associated with the actions or inaction by the home and foreign government in relation to its indigenous companies and exporters;
iii. Customer and Foreign Competitor Barriers: Barriers associated with the firm's customers and competitors in foreign markets, which can have an immediate effect on its export operations;
iv. Business Environment Barriers: Barriers associated with the economic, political-legal and socio-cultural environment of the foreign market(s) within which the company operates or is planning to operate;
v. Tariff and Non-tariff Barriers: Barriers associated with restrictions on exporting and internationalising imposed by government policies and regulations in foreign markets.

2.4.1.Policies related to governmental and regulatory barriers

Many of the external barriers are related to rules and regulations controlled or managed by foreign governments. Some of the primary tools to address these barriers are active engagement in multilateral and bilateral negotiations, recourse to international legal proceedings to resolve disputes, and trade advocacy. As outlined in Section 2.3, policies to overcome these external barriers can take the form of an encompassing global strategy, aiming at securing favourable terms of access to markets, as in the above-mentioned case of Canada's Global Commerce Strategy (Box 2.1), or rather take the form of targeted policies, which recognise that external barriers to SME export may differ significantly by area or country. In the case of New Zealand's strategy, for instance, key economic markets have been identified as having particular potential for the country's global relations and trade opportunities, namely China, India, US, Australia, EU, Middle East and ASEAN, and specific strategies for each market have been developed.

Negotiation between governments represents a crucial step to ease governmental and regulatory barriers. In recent times, the establishment of regional trade agreements (RTAs) has been a common trend across the geo-political space. Typically RTAs not only reduce and/or eliminate tariffs, but also entail other commitments, including government procurement, arrangement of business conditions for investment, or the protection of intellectual property rights. In this perspective, they can facilitate closer cooperation and continuous exchange between public officials from the countries involved. As a case in point, the Free Trade Agreement (FTA) between New Zealand and China, entered into force in October 2008, as the first FTA between China and an OECD member country, not only liberalises and facilitates trade in goods and services, but also promotes the cooperation between the two countries in a broad range of economic areas (Box 2.2).

Box 2.2. New Zealand- China Free Trade Agreement: key outcomes

Liberalised trade in goods
The NZ-China FTA provides for the removal over time of tariffs on 96% of New Zealand exports: New Zealand will make an annual duty saving of $115.5 million, based on current trade.
Rules to govern trade
The NZ-China FTA contains rules to determine which products qualify for tariff cuts (the 'Rules of Origin') as well as rules to counter unfair trade or unexpected surges in imported products from the other country.
Liberalised trade in services
The FTA also covers services and New Zealand service providers benefit from China expanding its commitments in services including in education and environmental services.
Movement of people
New Zealand will also benefit from provisions to facilitate the travel of business people to China and from access to skilled workers from China in certain occupations where long term skills shortages exist.
Facilitation for investment
In the area of investment, New Zealand will benefit from enhanced protections for investments established in China, as well as a provision to ensure that New Zealand investors remain competitive with investors from other countries. The FTA also provides New Zealand investors with access to binding third-party arbitration procedures if the Chinese Government breaches the investment provisions.
Measures to improve the business environment
The NZ-China FTA aims in other ways to improve the business environment and open up opportunities for business. Measures relating to:

- customs procedures
- sanitary and phytosanitary procedures
- technical barriers to trade, and
- intellectual property

are designed to reduce barriers to doing business between New Zealand and China. The NZ-China FTA establishes a framework for cooperation to enhance the benefits of the FTA. The objective is to build on the existing cooperative relationship and create new opportunities for both countries.

Conformity Assessment of Electrical and Electronic Equipment
The FTA includes a Mutual Recognition Agreement on Electrical and Electronic Equipment (EEEMRA), which will facilitate conformity assessments of a large proportion of electrical and electronic products traded between New Zealand and China.
Dispute settlement
The FTA establishes robust dispute settlement mechanisms and contains protections to preserve both countries' domestic regulatory and policy-making flexibility.
Environment and labour
China and New Zealand have entered into a binding Environment Cooperation Agreement and a binding Memorandum of Understanding on Labour Cooperation. These Agreements will enhance communication and cooperation on these issues and help towards the objectives of raising working standards and improving environmental protection in both countries.

Source: Government of New Zealand “NEW ZEALAND-CHINA FREE TRADE AGREEMENT” (www.chinafta.govt.nz/1-The-agreement/1-Key-outcomes/index.php) .

Governments also pursue trade policy advocacy as a means to remove external barriers. Many governments catalogue trade barriers cited by their exporters in foreign markets and periodically issue reports (such as the U.S. National Trade Estimate Report on Foreign Trade Barriers or the Report on Compliance by Major Trading Partners with Trade Agreements issued by the Japanese Ministry of Economy, Trade and Industry). Moreover, governments can play an active role in assisting exporters overcome trade barriers by directly interceding on exporters' behalf with foreign government officials. This can entail various actions including active in-market representation by consular staff, meetings by high-level government officials or discussion in multilateral fora (Fliess and Busquets, 2006). In the United States, for instance, the Advocacy Center helps U.S. firms in various industry sectors win government contracts across the globe. Once a firm's request has been qualified for assistance, the Advocacy Center works with relevant agencies to devise an appropriate advocacy strategy, which may range from Embassy and Consulate assistance to Sub-Cabinet and Cabinet messages delivered through a variety of media (e.g., letters, phone calls, or face-to-face meetings)1.

2.4.2.Policies related to business environment barriers

Collecting and supplying local market information to SMEs is a common approach to address barriers stemming from the foreign business environment ("Customer and Foreign Competitor Barriers" and "Business Environment Barriers"), which often combine with the information constraints of SMEs that can dedicate limited resources to explore and understand complex and different environments. This type of support can take several forms, including the organization of trade fairs to approach the foreign or the preparation of sector specific market analysis. Recently, many OECD countries have opened offices or support desks in foreign markets, aimed at supplying firms willing to enter the market with the required business information (see Table 2.1). Where local points to feed foreign market information existed, these have often been strengthened and the services of offices in foreign markets improved. The direct presence in foreign markets allows gathering high-quality information on the local business environment or bureaucratic procedures, which may be collected with more difficulties from abroad. For instance, the Australian Trade Commission (Austrade), the Australian Government's trade and investment development agency, has a network of foreign offices which covers 104 countries, through which Austrade assists Australian companies to grow their international business (see Box 2.7).

Apart from providing information to potential entrants, these offices may also assist firms which have already entered the market. For example, if firms face legal disputes or want to expand their activities in foreign markets, these local offices may supply the necessary information. This is the case of the EU SME Centre, which opened in China in 2010 to support SMEs navigating in the complex local system (Box 2.3), thus to addressing also regulatory barriers.

[1] See http://export.gov/advocacy

Box 2.3. EU SME Centre

In 2010, European Union established the EU SME Centre in Beijing, China, to support European SMEs that want to export to, or invest in China. SMEs typically do not have sufficient capacity to navigate in the complex Chinese administrative and legal system, in particular in the early stages of their market entry. The Centre help SMEs find answers to their market information, technical standards, human resources and basic legal questions. The services provided are the following:

- Business Development: provision of market information, business development and marketing advice
- Legal: legal information, 'ask the expert' initial consultations and practical manuals
- Standards: standards and conformity requirements when exporting to China, search tool for standard databases and guidelines on conformity assessment
- HR and Training: industry and horizontal training programme, database on available training courses, advice on HR issues
- Access to a service providers directory and information databases
- Hot-desking: free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical, hands-on support services to EU SMEs wishing to export to or invest in China and directing SMEs to other specialised service providers

Source: www.eusmecentre.org.cn

2.5. Policy measures to reduce internal barriers

Internal barriers are associated with limitations in organisational resources/capabilities and in the firm approach to internationalizing. They include (OECD, 2008, 2013):

- **i.** *Informational Barriers*: problems in identifying, selecting, and linking to international markets due to information inefficiencies.
- **ii.** *Human Resource Barriers*: constraints in human resources and inefficiencies in their management for internationalisation.
- **iii.** *Financial Barriers*: lack or insufficiency of financial resources to undertake international activities.
- **iv.** *Product and Price Barriers*: pressures imposed by external forces on adapting the elements of the company's product and pricing strategy.
- **v.** *Distribution, Logistics and Promotion Barriers*: barriers associated with the distribution, logistics and promotion aspects in foreign markets.

2.5.1. Collection and supply of information

As outlined above, informational barriers are perceived to be severe obstacles to international activity by both policy makers and SMEs themselves. In this area the actual complexity of the foreign business environment and the obstacles that stems from foreign regulation, lack of transparency or predictability combine with the internal constraints of SMEs. Consistently, the provision of information is a key component of policy measures in all countries (see Table 2.1).

Academic research evidence also suggests that attitudes to exporting represent a limiting factor for many SMEs. SMEs may not be aware of the potential for their products and services in export markets and on the benefits that firms may accrue by entering international markets. Because of the limits on the time, competency and financial resources available to SMEs, they often are not able to identify and pursue new

international market opportunities. Even when they have identified a possible new market, they often experience real difficulties in accessing the limited data available on which to assess expected profit and risk of doing business in that market. Often, when they are able to obtain data about the new market, it is frequently unreliable or outdated and so may open the business to additional risks if acted upon. Thus, identifying and accessing appropriate information, both from private and government sources, remains a key challenge for SMEs seeking to enter international markets (OECD, 2008).

At the policy level these constraints can be addressed by raising greater awareness of the value of exporting and providing information about the foreign market and business environments. Apart from information services, government agencies have been increasingly focusing on more tailored services to SMEs, such as providing contacts to local businessmen. This responds to a major constraint perceived by SMEs when approaching foreign markets, that is identifying foreign business opportunities and linking with appropriate partners (OECD, 2008). Firms willing to operate in foreign markets are often uncertain about the environment, including the behaviour of their trading partners. Personal knowledge of business partners can help to reduce the uncertainty and eventually establish personal trust which has proven to be an important ingredient for mutually beneficial exchange. Online resources and matching systems have been developed in several cases to open opportunities to SMEs for new partnerships. For instance, the government in Poland has introduced a portal site to which firms can register, to signal their intention to export and match with interested foreign importers2 (OECD, 2013).

2.5.2. Policies to address human resource constraints

An important deterrent for SMEs to operate in foreign markets is that they lack qualified personnel to dedicate to the international activity. It is difficult and costly for any firm to enter and then establish itself in a new market. Even when it is necessary, SMEs often cannot afford to retain specialist staff (or engage external experts) to set-up and manage their international operations. Technical, legal, marketing, e-commerce and supply-chain management expertise are often required for the operations to be successful. These skills are in short supply worldwide and are often only available in large multinational enterprises (OECD, 2008).

Capabilities programmes focus on helping firms to enhance relevant expertise and develop internal capabilities, which form a critical element of the internationalisation process. Typically, these scheme seek to develop the capabilities of the firm and its employees in the following areas: business planning; marketing; cultural differences in international markets; language capabilities and knowledge of export procedures. These programmes also support research into specific technologies, such as production processes, logistics and machinery, aimed at providing a competitive edge to the SME receiving the support (OECD, 2008).

In addition, several governments carry out matching services for young people, such as college graduates, who want to work as interns in firms exposed to international business and seeking new professional profiles. This is the case, for instance, of INOV Contacto (Box 2.4), a programme launched by the Portuguese government recognised in 2007 as a best practice by the European Commission.

[2] See www.eksporter.gov.pl/Default.aspx.

Box 2.4. “INOV Contacto” in Portugal

“INOV Contacto” is a programme to provide quality training to young graduates in an international context. The scheme matches graduates who search for internship with companies that seek high-potential human resources aiming for an international career. Graduate and companies are required to register themselves to the NetworkContacto. Companies are asked to develop and implement a training plan to take place both in Portugal (when applicable) and abroad. In exchange, the programme offers to companies the following privileges:

Business Opportunities: The NetworkContacto helps disseminating new business opportunities through its presence in 74 markets.

Partnerships :The NetworkContacto aims to encourage the creation of partnerships with international companies.

Tailor-made Information: The NetworkContacto allows the access to exclusive, reliable and up-to-date information about foreign markets, sectors and products by request of any of the participating companies.

Source: www.portugalglobal.pt

A comprehensive approach to improve the firm expertise and its strategic capabilities for navigating international markets is taken by programmes that combine training with coaching by a consultant or export adviser, as in the case of Denmark’s Vitus Growth (Box 2.5).

Box 2.5. Vitus Growth (Export Start Growth) in Denmark

Vitus Growth is the export program of Denmark’s Trade Council for Danish companies that seek to expand internationally and exploit growth opportunities in remote markets. Vitus Growth offers training and coaching divided into two modules: three months of strategy development and twelve months of execution.

During the first module an export adviser is seconded at the company to acquire in-depth knowledge of the products and the organisation. Subsequently, the company acquires knowledge about the target market with a fact-finding trip. The company and the export adviser then participate in two workshops to develop a Go-To-Market plan. These workshops are led by internationally acknowledged instructors in the area of sales and strategy development, as well as by specialists in cultural understanding. Lastly, the company gets the opportunity to test the Go-To-Market plan on an expert panel consisting of experienced business leaders. During the second module, the Go-To-Market plan is executed in close cooperation between the company and the export adviser. The essence is that there will be a focus on specific marketing activities as part of the quest for the first export order. In total 300 consulting hours are offered as part of the entire program.

The Vitus Growth program officially ends with an annual ceremony of Vitus Growth Export Award for the company that has performed best. To qualify for the program, the company (the entire group) must have annual revenue of maximum DKK 150 million, have between 5 and 150 employees, and must already be operating in several export markets.

Source: OECD (2013).

2.5.3. Policies to ease financial constraints

Compared to large firms, SMEs have more difficulties in obtaining adequate external funding (OECD, 2012). This reflects into their international activity, as acknowledged by both policy makers and SMEs themselves, which perceive financial constraints as one of the most severe barrier to internationalisation

(OECD, 2008, 2013). To address these needs many governments provide financial support including export loans or export insurance.

Across OECD countries, export credits represent a common measure to assists firms to internationalise (OECD, 2013). Box 2.6 illustrates the case of an export loan programme in Canada, which addresses the need of working capital by exporting SMEs.

Export credit guarantees are also used widely, to ensure exporters against the risk of foreign customers' defaults. In Finland, for instance, Finnvera, the state-owned enterprise that provides financial services for the start, growth and internationalization of Finnish enterprises (especially SMEs), issues export credit guarantees that cover different types of risks. These may be related to the buyer or borrower (commercial risks), as well as to the buyer's or borrower's country (political risks). The guarantee can be granted for individual export transactions or for continuous deliveries, it can be used for export transactions with a short-term or a medium/long-term credit period, and the cover percentage is normally 75-90 %.

Box 2.6 Market Xpansion Loan in Canada

Market Xpansion Loan is offered by the Business Development Bank of Canada (BDC) to help a firm to expand its domestic market or explore foreign markets, by providing working capital support. Market Xpansion Loan provides up to $100,000 and can be used to:

- Participate in prospecting initiatives like trade shows overseas
- Develop export and/or e-commerce plans
- Advance SR&ED (Scientific Research & Experimental Development) refunds to replenish working capital, or cover SR&ED consulting costs
- Conduct product development and R&D
- Purchase additional inventory for export

A company can apply to have any repaid portion of the loan of $10,000 or more re-advanced to the company. This option is unique to the Market Xpansion Loan solution. It gives firms the flexibility to borrow more money when they need it.

Source: OECD (2013).

2.6. The role and effectiveness of Trade Promotion Organisations (TPOs)

Trade Promotion Organisations (TPOs) have been commonly established across advanced and developing economies, as the catalyst organisations to promote trade and local businesses' participation to international markets. In many cases, TPOs are viewed as "one-stop-shop" for all exporters' needs (EUAG, 2011).

Across OECD countries, TPOs generally:

- have a network of offices in many foreign countries for collecting local market information and supporting firms undertaking business in the local market,
- have a network of regional offices in the home country to provide information to domestic firms,
- implement policy measures to promote export and investment in foreign countries, and
- implement policy measures to attract FDI from foreign countries.

The policy measures implemented by many TPOs are useful for reducing the internal and external barriers SMEs face in globalisation. In concrete terms, they do:

- collect and supply information about overseas markets,

- provide toolkit for firms to evaluate their readiness for international business
- provide consultation for firms which have intention to start or expand international business, including support for deciding target markets, making a business plan, and introducing potential business partners in foreign markets,
- organize mission tour to foreign markets and trade fairs,
- supply financial supports, including export grant, export credit and export insurance, sometimes in collaboration with governmental financial institutions,
- provide support to firms internationalisation, for example, by offering training courses to enhance the quality and quantity of human resource for international business.

Table 2.3 summarises the main policy measures implemented by TPOs, relating them to the stage of exporting and the barriers addressed in each stage.

Table 2.3 Barriers to Export and TPO Activities

Stages of Export	Barrier	TPO activities to overcome barriers
Trade Finance and Insurance	·Lack of capital to finance export ventures. ·Lack of knowledge about trade finance instruments, export insurance products and limited access to such services in regions. ·Exchange rate fluctuations.	·Create a hub of information comprising all services, organisations, regulations related to trade finance and insurance. ·Promote knowledge about Trade Finance instruments in the regions. ·Work with international financial institutions and rating agencies to improve risk rating of the state (to achieve lower rates for trade financing).
International Market Research	·Limited market intelligence on foreign markets ·Difficulty in finding a competent distributor in foreign markets ·Language barriers	·Arrange seminars, workshops, courses to create awareness and improve exporting skills (exporting procedures, export market research, export marketing strategy). ·Supplying foreign market information (technical standards, customer lists, commercial legislation) . ·Supplying risk profile and creditworthiness information about potential importers and importing countries.
Production	·Quality and safety standards and licensing imposed by importing states	·Helping firms to boost their exports using special tools (export subsidies, financial assistance, and expert consultation).
	·Insufficient competitiveness in product features and production costs	·Coordinating efforts of national and international standardisation and metrology bodies on implementing international quality and safety standards.
		·Supplying foreign market information on technical standards.
Export Contract	·Lack of knowledge about legal implications of contracts signed with international partners	·Supplying foreign market information on commercial legislation, assisting exporters in finding legal advice if necessary.
Certificate of Origin	·Lack of knowledge about procedures, complexity of the process	·Working with bodies responsible for issuing Certificates of Origin on making the process as easy to understand and transparent as possible.
		·Educate exporters about the procedures.
Transport	·Availability of modes of transport	·Working with responsible agencies to achieve better diversification and reliability of modes of transport.
	·Availability of transport insurance	·Cooperation with insurance companies to ensure better Availability of transport insurance products.
Export Customs	·Customs fees and procedures	·Educating exporters about customs procedures.
	·Time to process customs formalities	·Cooperation with customs authorities to optimise paperwork and time it takes to clear goods for export.
Post-Export	·Possible barriers imposed by the importing countries	·Making a mechanism whereby the state and potential exporters are aware of such barriers
		·Initiate discussions at the international organisations' level or bilaterally to eliminate such barriers

Source: EUAG (2011)

TPOs are typically governmental agencies. Based on a survey of 88 TPOs worldwide, Lederman et al. (2009) show that, in most cases (62%), these are semi-autonomous entities reporting to a Ministry or the Office of the President or the Prime Minister. In a significant number of cases (23%) these agencies are sub-units of a Ministry and therefore subject to government hiring regulations. On the other hand, only 10% of the agencies surveyed are fully private and an even smaller share (5%) are joint public-private entities.

Even though an organisation to promote trade needs not be a governmental agency, and it is also possible for a government to directly support firms, the creation of a government-related but autonomous agency presents some advantages:

- **i.** it is difficult for private firms to establish and maintain a worldwide network, while a governmental organization can sustain it;
- **ii.** similarly, a governmental organization can establish and maintain a diffused network of regional domestic offices;
- **iii.** local market information can be reflected in policy measures;
- **iv.** the direct relationship between the government and a governmental organization enables the organization to provide feedback to the process of policy design, implementation and assessment, based on a large number of cases of trade promotion;
- **v.** a governmental organization can more easily establish relationships with foreign governments; and
- **vi.** a dedicated organisation independent from government can focus on international issues and enhance the quality of support to firms.

Despite these advantages, governmental TPOs have been the object of criticism by many analysts and practitioners. In the early 2000s, a policy note by the World Bank highlighted that only a few had made valuable contributions to the export performance of their sponsoring countries and called for a revitalisation of these agencies (De Wulf, 2001). In more detail, the evaluation pointed at the following areas for improving TPOs' performance:

- ***Promote incentives favourable to exports***. TPOs can overcome some bias against exports but cannot operate efficiently in the face of a strongly adverse environment, with an export bias that may stem from an overvalued exchange rate, tariff and non-tariff barriers, costly infrastructure services and excessive red tape.
- ***Seek autonomous operations***. TPOs should be flexible and autonomous institutions that operate with top political support but also ensure links with public and private actors, based on mutual trust with the business community. TPOs should be able to influence policies and deliver quickly the resources and services when and where they are needed.
- ***Support a demand-driven strategy***. TPOs should include in their boards private sector representatives, to ensure they play an important role in defining, implementing and monitoring the organisation's strategy.
- ***Strike a balance between offshore and onshore objectives***. TPOs have traditionally focused on offshore activities, such as collection of information, market research, trade representation and trade fairs. TPOs should complement these traditional activities with attention on the supply conditions in the home country, advocating for instance well-targeted enterprise support to potential exporters facing local bottlenecks.
- ***Ensure quality staffing***. Proper staffing is crucial for delivering good quality services. TPOs should have autonomy in setting recruitment standards, draw on expertise from external consultants and expose staff to commercial practices and private sector concerns through appropriate training.
- ***Provide adequate funding***. TPOs should be sustainable agencies. Donor financing can be useful in the early stages, but it should be followed by adequate domestic resources and fee revenues,

although fees should be carefully structured to ensure that recipients value services but also that potential exporters are not discouraged.

- ***Evaluate the results***. The effectiveness and efficiency of TPOs' activities should be periodically evaluated, including through reviews of performance of beneficiary firms. Evaluation would allow policy makers to learn from experience and refine strategies.

Over the last decade, the structure and activities of TPOs in many countries have evolved, also in the light of these earlier evaluations. As trade policies have also become more export-oriented, the policy environment has become more favourable to their action. Lederman et al. (2009) estimate that TPOs with large share of public funding, but also with relevant participation of the private sector in their boards, have been especially effective in promoting export. Boxes 2.7 and 2.8 provide examples of good practices, illustrating the experience of TPOs in Australia and Canada, which have developed a comprehensive strategy to support firms seeking to start or expand their international business.

Box 2.7 AUSTRADE in Australia

The Australian Trade Commission, AUSTRADE, is the Australian Government's trade, investment and education promotion agency. Through a network of offices in 104 countries, Austrade assists Australian companies to grow their international business, attracts productive foreign direct investment into Australia and promotes Australia's education sector internationally.

The role of AUSTRADE is to advance Australia's international trade, investment and education interests by providing information, advice and services. Specifically, AUSTRADE:

- Help Australian companies to grow their business in international markets, including through administration of the Export Market Development Grants (EMDG) scheme and the TradeStart program.
- Provide coordinated government assistance to attract and facilitate productive foreign direct investment (FDI) into Australia.
- Promote the Australian education sector in international markets and assist Australian education providers with market information.
- Provide advice to the Australian Government on its trade and investment policy agenda.
- Deliver Australian consular, passport and other government services in designated overseas locations.
- Manage the "Building Brand Australia" program to enhance awareness of contemporary Australian skills and capability and enrich Australia's global reputation.

Focusing on export promotion, AUSTRADE provides a variety of services including the "International Readiness Indicator" (an on line tool to evaluate firm's readiness for exporting, consisting of 12 yes/no questions) and the supply of information about overseas markets, and export market development grants, which reimburse up to 50% of eligible export promotion expenses above $10,000, provided that the total expenses are at least $20,000.

Austrade conducts its own surveys with clients on a quarterly and annual basis, which indicate consistently high degrees of satisfaction with Austrade service delivery.

Source: www.austrade.gov.au

Box 2.8 Canadian Trade Commissioner Service (TCS)

As part of Foreign Affairs and International Trade Canada, the Canadian Trade Commissioner Service (TCS), created in 1894, helps Canadian companies and organizations succeed globally.

TCS provides Canadian firms with on-the-ground intelligence and practical advice on foreign markets to help them make better, more timely and cost-effective decisions in order to achieve their goals abroad.

According to TCS, its advantages are:

1) hands-on knowledge of international markets

- The knowledge of TCS comes from helping thousands of companies each year tackle concrete problems and pursue opportunities in foreign markets.
- Through the presence in more than 150 cities worldwide, TCS gains market intelligence and insight, and uncover opportunities for Canadian companies.
- With offices across Canada, TCS can help companies prepare for international markets in their home environment.

2) an extensive network of international business contacts

- TCS has privileged access to foreign governments, key business leaders and decision-makers because TCS is part of Canada's embassies and consulates.
- TCS's business contacts include potential customers, distributors, sources of finance or investment, technology partners and intermediaries.

With information collected in overseas markets related to contacts of potential buyers and partners, professionals in financial and legal institutions, technology sources, agents, manufacturers' representatives, foreign regulatory authorities and foreign investment promotion agencies, TCS's regional offices work with Canadian firms to:

- Determine if they are internationally competitive
- Decide on a target market
- Collect market and industry information
- Improve their international business strategy

TCS also provide Global Commerce Support Program (GCSP), which is a contribution program that amalgamates three funding programs for Canadian national associations, communities, companies and researchers.

1) Global Opportunities for Associations (GOA)

- For Canadian national associations seeking to undertake new or expanded international business development activities, in strategic markets and sectors, for the benefit of an entire industry (member and non-member firms).
- Allows for annual non-repayable contributions ranging from a minimum of $20,000 to a maximum of $150,000 over a one-year period from April 1 to March 31. Provides matching funds of up to 50% of eligible expenses.

2) Invest Canada-Community Initiatives (ICCI)

- For Canadian communities aiming at attracting, retaining and expanding foreign direct investment.
- Provides matching funds of up to 50% of eligible project costs per year, for a total contribution not to exceed $300,000 per project per year.

3) Going Global-Innovation for Researchers (GGI)

- Designed to promote and enhance Canada's international innovation efforts by supporting Canadian researchers (from private companies, universities and non-government research centres) in pursuing international collaborative R&D opportunities through the development of partnerships with other countries/economies.
- Provides assistance by contributing up to 75% of eligible expenses.

According to Trade Commissioner Service Client Survey – 2009, TCS has a substantial positive impact on Canadian clients' international business development efforts. Based on the survey, it is estimated that TCS services and intervention contributed roughly $1.13 billion in additional financial results to Canadian clients in the 2008-09 fiscal year.

Source: www.tradecommissioner.gc.ca

2.7. Lessons learnt

The large number of studies on SME export support programmes, particularly in OECD countries, provide key insights on the effectiveness of these policies in fostering SMEs' participation in global markets and on their overall welfare effects. Although, the relevance and effectiveness of policies is much dependent on specific national contexts, some lessons learnt from the experience of OECD countries can be highlighted.

- ***Take a pro-active approach to support SMEs' internationalisation***

It is essential for governments to have a pro-active attitude to support SMEs' international business and share the attitude within the government. Formulating an overarching strategy for SMEs' internationalisation can represent an effective mechanism to coordinate interventions across different policy areas and government levels.

The perceptions of barriers revealed by policy makers and SMEs in several reports suggest that government support may be especially needed by SMEs with export potential but with low productivity and scarce management resources. By overcoming the key obstacles to the first entry into foreign markets, learning-by-exporting may facilitate productivity improvement and better positioning over time in both national and international markets.

- ***Explore domestic SMEs with high potential for success in emerging markets***

Only a limited share of SMEs can enter foreign markets and sustain open international competition. It is relevant for policy makers to establish sound screening mechanisms, which allow to differentiate domestic SMEs with high export potential, on which to focus support, from SMEs that lack specific advantages. In this regard, criteria to evaluate the export potential of SMEs are needed, which may differ across countries and sectors of specialisation.

- ***Segment support for different groups of SMEs***

The results of screening may be used to develop targeted support for different groups of SMEs. For example, for SMEs with less potential of success in foreign markets, advice services could focus on how first to improve productivity/profitability and, as a result, strengthen the chances to enter international business successfully. For SMEs with high potential, governments can identify specific issues to be improved and offer specific or tailored support

- ***Relate policies and instruments for internationalisation with those for innovation***

In many respects, internationalisation and innovation are closely intertwined, yet there appear to be few systematic linkages to ensure that support is coherent and that companies are supported continuously and effectively across different government funding units and programmes.

- ***Favour linkages of SMEs to global value chains and networks***

Larger corporations and the attraction of inward investment are becoming important considerations in government policy. Leveraging such investment for the benefit of SMEs may provide accelerated routes to internationalisation and growth. In particular, policies at the regional level should enhance co-operation between multinationals, local corporates and small firms to form part of interrelated regional clusters.

- ***Increase the awareness of existing programmes for assisting with SME internationalisation***

Governments should do more to publicise the wide range of support programmes available to SMEs seeking to access international markets as, on the whole, those programmes are regarded as useful by enterprises that use them.

- ***Encourage the integration of a demand-driven perspective into the strategies of Trade Promotion Organisations (TPOs)***

TPOs should deliver services that respond to effective needs of current and potential exporters and bring them closer to the SME sector. TPOs should provide feedback to the policy design process, to ensure evolution in response to the rapidly changing economic and trade environment faced by exporters.

CHAPTER 3. SME EXPORTS IN OIC MEMBER STATES: OPPORTUNITIES AND CHALLENGES

3.1. Introduction

The global economic crisis, consequent retrenchment in trade related expenditure, political change and ferment in the Middle East, and environmental hazards, have not really prevented the OIC countries to grow. In terms of overall trade, the expected downturn from adverse economic, political and environmental conditions has been offset by a rise in energy prices of about 26% between 2010 and 2011. In terms of trade figures member countries reported an increase of approximately 24%, with overall trade accounting for nearly 11% of world trade.

Of note is the increase in intra-OIC country trade. The pattern of growth in intra-OIC trade reflects the growth of those countries where such intra-country trade occurred. This pattern is confined to the top ten countries in the OIC. More specifically, over 2010-2011, intra-OIC exports increased by 28% due in the main to the significant export contributions by countries such as Saudi Arabia, the UAE, Qatar, Iran, Iraq, Turkey, Nigeria, Indonesia and Malaysia. These exports consisted of manufactured goods, mineral fuels, food products, non-edible raw materials, machinery and equipment transport. Growth in intra-OIC trade also suggests an increased level of interdependency between member countries and South-South interaction, which marks a break from the hegemony of traditional trading patterns which relied on western countries for much of exports.

Despite the evidence of growth in trade in the OIC countries in general, and especially intra-OIC trade, the cost of developing new markets remains a problem. Taken together with the paucity of data and information on market conditions, foreign exchange risks, the cost or supply of labour, foreign government regulation and obtaining licenses and bonds, there are a range of market asymmetries that need to be addressed in the present and in the future. The general pattern of trade and exports also suggest that there are specific conditions that enable a relatively small sample of these countries to dominate the exports market place. We also find considerable gaps in reliable, accurate, up to date and adequate levels of information about SMEs generally and specifically in relation to the exports market. Given the universally acknowledged role of SMEs in economic development and in both local and international businesses markets, it is critical that the specific issues of interest to SMEs. Identifying these conditions and gaps in relevant information could perhaps help decision makers to answer critical questions. Why do the level, type and range of exports vary from country and from region to region? What local factors impact on a region's or country's ability to increase exports over time? Are there effective institutions and policy measures that can support exports? Are framework conditions adequate for the realization of exporting opportunities by firms? What role do SMEs play in international trade in and for these countries? What conditions obtain for SMEs to be more effective as exporters? There are contextual considerations to be taken into account which might reveal where opportunities can be best realized and where more effective policy and demand side actions can be supported.

The contextual focus allows for the examination of relevant factors and characteristics that affect and define the nature of the export market in those countries. Typically, the economic growth conditions in Malaysia and Indonesia do not hold in sub-Saharan Africa. The nature and type of goods and services for exports are different in each country and they vary from one region to another. Spill-over effects and interdependencies in terms of trade outflows and inflows between particular countries also have an impact on the type of exporting activities, their size, volume and future prospects.

The countries selected for this study include Sub-Saharan African, North African and Middle East countries (MENA) and Asian counties. A snapshot of the economic dynamics of each of these groupings and how they affect their exports are presented below[3]. The countries which form part of these 3 groupings are:

- Sub-Saharan Africa: Burkina Faso, Uganda, Cameroon and Senegal
- MENA countries: Egypt, Saudi Arabia and Yemen
- Asia: Malaysia, Indonesia and Bangladesh

The rest of this chapter discusses these critical issues of trade and especially exports with a view to addressing the questions raised above. We do so by examining first the specific conditions that prevail in the three groups of countries referred to above. This is followed by an overview of the nature and scope of interdependencies among the countries in each of the three groupings with particular reference to intra-OIC trade. A review of the role of SMEs in economic development of each of regions sums up the overall context of our investigation of the exporting activities of the OIC countries, and more specifically the barriers that both SMEs and policy makers have to overcome to help augment the exporting capability of these countries.

3.2. Sub-Saharan Africa OICs

This grouping includes Burkina Faso, Senegal, Cameroon and Uganda.

3.2.1. General conditions

Against the backdrop of a recession-hit global economy, growth in sub-Saharan Africa has been fairly strong. A regional output expansion rate of 5% for 2010-11 is expected to be maintained in 2012-13 (est. 5.14%). Much of this steady state support for growth can be attributed to domestic demand supplemented by public and private investment and generally macroeconomic policies conducive to growth (Table 3.1). Interestingly, the best examples of growth are found in the fragile counties and the low –income countries, whereas slow growth in the middle income countries appears to be tracking the global economy. The latter group of countries has closer links to European markets. Other local external conditions of political instability and drought are also having an impact on any slowdown in some countries[4]. It is believed that a global slowdown would possibly reduce the regional growth rate by 1% per annum but not necessarily derail growth and development in the region (IMF 2012). There may be variations across countries with those whose exports are undiversified and whose policies are weak being probably at the sharp end of any negative impact.

The Direction of Trade Statistics' data (DOTS, IMF) indicate an increase in the annual average rate of African[5] export growth, with a flow over the last decade. In the 1980s African exports grew annually, on average, by 2.6%, by 8% in the 90s, and by 15% in the 2000s. In spite of the increase, African exports still represent a small share of global exports. The African aggregate share in world export was 3.4 % in 2012.

[3] Much of the data and analytical output in this section is based on IMF reports (especially the 'Regional Economic Outlook: Sub-Saharan Africa – Managing Growth in an Uncertain World', Oct. 2012) and Comtrade statistics data bases.

[4] Cameroon belongs to the club of 'oil exporting countries (other than Nigeria) in the region (IMF)

[5] These figures include those of MENA countries such as Egypt, Tunisia and Morocco.

Table 3.1 Real GDP Growth in Sub-Saharan Africa (percentage change)

	2004-08	2009	2010	2011	2012	2013
Sub-Saharan Africa (Total)	6.5	2.8	5.3	5.2	5.3	5.3
Oil exporting countries	8.6	5.1	6.6	6.3	6.7	6.0
Middle Income Countries	5.0	-0.6	3.8	4.5	3.4	3.8
Low Income Countries	7.3	5.4	6.4	5.5	5.9	6.1
Fragile Countries	2.5	3.1	4.2	2.3	6.6	6.5
World	4.6	-0.6	5.1	3.8	3.3	3.6

Source: (IMF 2012)

All four countries in our sample represent the lowest possible level or a 0% of share of world exports. However, these figures have to be examined in their proper context, namely the generally low share of all African exports as a proportion of world exports and the only marginally better performances of countries such as South Africa and Nigeria. There are no outlier countries which buck the trend. While the larger of the sub-Saharan African countries have a low ranking in the overall exports market, countries at the lowest possible end of the spectrum may achieve a higher ranking due to the exclusive nature of the products or services that they export. Cameroon, Senegal, Uganda, and Burkina Faso (in ascending order) all have a higher ranking than for example Nigeria and South Africa.

In examining the direction of exports from African countries to other parts of the world we find that although exports have been growing, 2012 marked a slowing down of this trend. Exports to advanced economies increased for the period between 2010 and 2011 but decreased in 2012 to 187.5 bn US $ from 204.83 US$. This decrease was, however, was compensated by an increase in exports from 128.42 US$ in 2010 to 173.57 US$ in 2012 (or 35%) to emerging and developing economies, predominantly to Asia (41%) and to a lesser extent to the MENA countries (39%) and Europe (17%). This shows that African countries are presently exporting more within Africa as indicated in the data showing steady increase in exports within Africa.

Table 3.2 Value of African Exports to Other Regions

	2010	2011	2012	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012 Sep	2012 Oct	2012 Nov	2012 Dec
World	294.47	372.31	375.21	93.30	94.57	91.71	95.63	31.41	31.66	31.33	32.64
Advanced Economies	162.12	204.83	187.45	48.51	45.81	47.04	46.09	16.34	16.82	15.50	13.77
Emerging and Developing Countries	128.42	151.86	173.57	41.01	45.18	41.05	46.33	13.91	14.36	14.54	17.43
Developing Asia	72.22	85.23	102.40	24.83	27.26	22.73	27.58	7.68	8.24	8.03	11.31
Europe	4.61	5.13	5.42	1.27	1.34	1.33	1.48	0.49	0.56	0.46	0.46
Middle East and north Africa	4.82	5.53	6.71	1.29	1.65	1.51	2.25	0.53	1.25	0.49	0.51
Western Hemisphere	11.36	15.58	14.22	3.28	4.22	2.81	3.91	1.02	0.84	1.70	1.38

Source: Direction of Trade Statistics (DOTS); Data extracted from IMF Data Warehouse on: 5/28/2013

Variations in the exporting fortunes of African countries are not necessarily uniform and this is because of their dependence on commodities. The exports of the selected countries (Cameroon, Senegal, Uganda, and Burkina Faso) are composed of primary commodities that are homogeneous products and with low value. Rauch's classification (1999) indicates that about 60% of African exports were goods traded on

organized exchanges (classified as homogenous goods), 20% were products with reference prices (classified as intermediate), and 20% of exports could be considered as differentiated products.

The demand for exports from the region is at best sluggish and this is contributing to a widening of current account deficits. MICs such as Senegal have witnessed a significant weakening of exports, while oil-exporting countries, such as Cameroon, have also seen a gradual drying up of export receipts especially in 2012 due mainly to lower fuel prices. Although LICs have seen an increase in exports the rise has been fairly modest. In the smaller countries exports are benefiting substantially with the commencement of production in new resource projects. These new projects have been financed by large financial inflows which, together with import needs, have affected the balance of payments in those countries. Service sector exports and the remittances continue to be strong across the region. Table 3.3 provides a data picture of the exports of goods and services of selected OIC counties in the sub-Saharan regions.

Table 3.3 Exports of Goods and Services (% of GDP)

Countries	2004-8	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Burkina Faso	10.6	11.3	9.8	11.4	10.6	9.9	12.6	21.4	25.7	28.4	28.8
Cameroon	27.7	22.7	24.5	29.3	31.0	31.1	23.5	25.6	30.7	32.1	33.0
Senegal	26.3	27.1	27.0	25.6	25.5	26.1	24.4	25.0	25.2	25.0	25.1
Uganda	14.8	12.2	12.3	14.3	15.6	19.8	20.7	21.4	22.3	20.8	21.5

Source: IMF African Department database, September, 19, 2012 and World Economic Outlook Database, September 19, 2012

As the above data shows, the weakest of the exporting nations is the LIC, Uganda, with exports having peaked in 2010 and then plateauing off till 2013. Burkina Faso has the most promising growth rate in exports. It has more than trebled its rate from the start of the global recession (from 9.9 in 2008 to 28.4 in 2012). Cameroon's larger share is accounted for by the fact that it is an oil-producing country with its exports reflecting the market trends in oil exports generally. Mineral fuels, oils, and distillation products accounted for more than 50% of the total export in Cameroon. For an oil-producing country the decline in exports revenue from that sector could have a devastating effect. However, it has also had a positive outcome in that it has pushed growth and development of other sectors where SMEs prevail. In fact, in 2008-2009, the decline in Cameroon's export was as a result of fall in its oil export. This fall in oil exports has had the effect of developing the non-oil sector, such as cocoa preparations, which is composed mainly of SMEs

Compared to Cameroon the trajectory of growth in exports of the other three countries provides an alternative scenario. The non-oil producing middle to low income countries have been able to show better a positive trend over the past 10 years, despite the recessionary global economic climate. In all cases, though, we are seeing some drop in exports in the final quarter of 2012 and the first quarter of 2013.

In general terms the strength of growth in the Sub-Saharan region has been assisted in part by supply- side factors such as the expanding natural resource sectors and apparent changes in climatic conditions. LICs have also seen better institutional facilities, the development of more robust policy frameworks, a reduced burden of external debt and more attractive commodity prices. Against this it is necessary to weigh up possible downside effects such as ineffectual policy measures in Europe, especially in the Euro area, with potential spill-over effects across the world. This problem will not be limited to Sub-Saharan Africa. The other possible downside is lower future output growth resulting from the slowing down of the major economies and possible higher levels of fiscal adjustment. A 1% drop in the global growth rate could shave 0.6 points off the growth rate in Africa. The worst outcome for a relatively small drop in output is for countries which are dependent on one or two export commodities, with negative multiplier effects on

budget revenue, foreign investment and foreign exchange. Each of the sub-categories will need to address specific policy issues. For example, in countries with strong growth and favourable export prices, fiscal consolidation and the strengthening of fiscal buffers might be deemed appropriate. MICs may do the same but the actions may need to be more gradual, while the LICs will need to concentrate on strengthening domestic revenue bases by increasing public investment to mitigate any drop in foreign aid from donor countries.

Where there are signs of growth this could be attributable to "(1) existing exported products that a country could increase through improved productivity or product quality; (2) products that reflect a country's endowment strengths, but have not been exported in significant quantities; and (3) products that represent downstream processing of existing export products" (USITC, 2005). Market diversification or increased activity in existing markets can also account for such growth. Typically the accelerating demand for natural resources including petroleum, timber, cotton, minerals and metals from China has benefitted African countries exporting these products. While markets for raw agricultural commodities, minimally processed products, and light industrial goods can be targeted to developing and emerging economies, the high-value horticulture, floriculture, or organic agricultural products have typically targeted markets in the European Union and the US. (USITC 2005)

While the overall value of exports may be low by international standards, the export sector's contribution to national development goals is significant in many Sub-Saharan countries. For example, it provides employment to millions of Ugandans, where coffee employs more than 1.2 million people and supports more than 6 million livelihoods and cotton employs an estimate of 0.8 million Ugandans, with 6 million people depend on the sector for their livelihoods.

3.2.2. Interdependencies

Interdependencies are an outcome of spill-over effects generally from larger countries in the region and the impact of their economies on smaller countries. The two largest economies in Sub-Saharan Africa, Nigeria and South Africa, have a considerable bearing on other countries in the region. These spill-over effects (developments in one country spilling over to others) take the form of trade in goods and services, flows of capital, labour movements, remittance flows and financial sector interconnections.

South Africa is a large player in the region and plays an important role in the structure of sub-Saharan African trade. There are also some institutional factors such as revenue sharing arrangements including SACU (South African Customs Union) or WAEMU (West African Economic and Monetary Union). It should be noted that although trade within the region is fairly modest as a proportion of total trade of countries, the ratio of intra-regional trade to GDP has been rising sharply in the past decade. Improved regional infrastructure, effective implementation of free trade agreements, lesser use of rules of origin, and reduced non-tariff barriers, might augment this intra-regional phenomenon.

Nigeria offers a slightly different case study. It is a key export market for only a few neighbouring countries but its financial linkages further afield are growing with the expansion of Nigerian banks. Informal trade linkages in cereals and grains are significant. Well-organised trading networks enable easy transfer from surplus to deficit zones, which can affect prices in the regions as only a small amount of this trade is recorded in the merchandise trade data. Smuggled petroleum products from Nigeria constitute a major source of fuel imports for countries like Cameroon. Part of the problem stems from the highly subsidized fuel market in Nigeria where the gasoline price is approximately 50% lower than those in the neighbouring countries. Re-export trade, for second hand cares, textiles, garments, rice and cigarettes which are all highly taxed in Nigeria, are made available through 'entrepot' states.

Interdependency is also manifest in the growth of intra-OIC trade. The following tables for Uganda and Senegal show that the share of each country's intra-OIC trade has increased considerably from 15.17% to 50.92 % and 5.24% to 22.59%, respectively. The same trend is observed in overall intra-OIC trade. This rate of growth in intra-OIC activity can only help in the development of these countries especially if they are unable to explore markets in weakening European and North American markets.

Table 3.4 Intra-OIC trade data (Uganda), 2000-2009

Uganda	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World exports (in millions US $)	320	312	324.1	531.9	687.3	675.02	687.47	1336.67	1724.3	1597.09
Intra OIC exports share in %	5.94	6.73	3.24	6	8.27	12.11	13.45	26.24	22.2	22.59
Intra OIC trade share in %	4.71	5.39	3.57	9.31	10.63	12.2	12.96	23.37	22.38	22.17
Main intra-OIC exported products (2008)	Coffee, road vehicules, cereals, sugar and sugar products, telecom equipments, fish, custaceans and millusess									

Source: ICDT

Table 3.5 Intra-OIC trade data (Senegal), 2000-2009

Senegal	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World exports (in millions US $)	841	849	1584,54	1269,4	1443,47	1363,58	1546,26	2170,48	2017,39	2134,52
Intra OIC exports share in %	15,17	22,38	30,19	35,63	37,84	41,07	52,54	48,53	48,05	50,92
Intra OIC trade share in %	19,27	22,37	23,64	28,77	35,06	31,72	29,33	35,74	36,56	33,95
Main intra-OIC exported products (2008)	Petroleum products, non metallic manufactures, tobacco and tobacco manufactures, iron and steel, cereals									
Main Customer	Mali, Gambia, Guinea, Cote d'Ivoire, Mauritania, Guinea Bissau, Chad, U.A. Emirates, Burkina Faso and Cameroon									

Source: ICDT

3.2.3. The role of SMEs for Development and Trade in sub-Saharan Africa

The absence of properly codified and detailed data on SMEs across the sub-Saharan region makes it difficult to do either an overarching analysis of SME performance and development in the region or meaningful cross-country comparisons. This problem also affects the development of policies both within countries and across linked economies with a view to promoting networked businesses and enhanced intra-regional trade among SMEs. We are conscious, however, of the truism that the majority of businesses in most economies are small or medium sized enterprises. In the absence of comprehensive and reliable data we can attempt either a crude extrapolation of existing information or rely on case studies of specific countries using data where available as proxies of regional level information to inform our understanding of SMEs. Since this study does not attempt to address problems of whole regions we choose snapshots from three countries, Burkina Faso, Senegal, and Uganda to assist us with our analysis of SME and exports of sub-Saharan countries.

Both Senegal and Uganda boast large communities of micro, small and medium sized enterprises. They account for 90% of all private sector businesses in both countries. The Senegalese firms are key drivers of growth in the Senegalese economy sharing the same contributory accolade with their Ugandan counterparts, which are responsible for over 80% of manufactured output and about 75% to the gross domestic product. However, these enterprises do not necessarily play a key role in driving economic development in terms of job creation or employment retention. Although 300,000 SMEs account for 90%

of businesses in Senegal, they only account for 42% of total employment and just 33% of total value added.

In Uganda SMEs are largely concentrated in urban areas, mainly in Kampala and the central region. They are predominantly engaged in hospitality and entertainment, education, wholesale and retail trade, manufacturing, finance and insurance, health, social work, furniture, agriculture, professional services, and Information and Communication Technology (ICT). Ownership of the enterprises is almost equally distributed between the male and female genders at 47.4% and 52.6% respectively, with more females engaged in micro enterprises.

Agencies have been set up to support SMEs in both countries. In Senegal ADEPME (Agency for the Development of Small and Medium-Scale Enterprises) is a government body which supports SMEs, from their creation to their development by providing technical assistance on accounting, marketing, and business development. The "SME sectoral policy letter" mainly addresses SMEs development. At regional and international level, many organisations are involved in the SMEs promotion in Senegal. The African Development Bank is very active through its "Strategy 2010/2015" which financially supports the national policies like the Accelerated Growth Strategy or the Enterprise Update Programme. Other donors like ECOWAS, GIZ, EU, and USAID take part in the implementation of generic or specific sectorial SME programs.

It appears that very little information is available about SMEs and exports in both countries. The Ministry of Finance in Senegal estimates that only 5% of SMEs are involved in international trade. What we do know, however, is that there is a plethora of policies and strategies aimed at exports which could be of use to SMEs if they have the capacity, the entrepreneurial orientation and the support facilities for export-led internationalisation. ASEPEX (Senegalese Association for Exports Promotions) was created in 2005 by the Ministry of Trade; this association is in charge to help Senegalese enterprises to export through the implementation of the Accelerated Growth Strategy (SCA).

In relation to exports, Uganda developed a National Export Strategy (NES) for the period 2008-12 that aimed to generate US$5 billion per year in revenue from the export of goods and services. This sum should contribute more than 16% to GDP, and increase the per capita export ratio from US$82 to US$200 as from 2012. Of the 12 sectors highlighted for the medium-term, coffee, tea, flowers, fish, cotton, and services were identified as the main priorities. In order to support export diversification, sectors with export potential such as textiles and garments, cereals and pulses, commercial crafts, natural ingredients, and dairy have also been targeted. Although SMEs tend to operate mainly in the service sector there are likely to be export related externalities which could be of benefit to many of the service industries in the country. Substantive measures have also been developed to provide direct support activity to create, for example, an effective national export training infrastructure which offers hands-on entrepreneurship and export management training.

The doubling of real per capita GDP in Burkina Faso between 1995 and 2006 can be attributed to the success of the cotton industry. Since 1995 the seed cotton sector has grown by 7.2% per annum on average with much of growth being derived from the availability of increased area of cultivation and land and labour productivity gains. Cotton is the main source of exports related income representing two-thirds of all export earnings. Approximately 98% of production is exported, after ginning, to 30 countries. The weighting in favour of cotton makes exports particularly vulnerable not least because of the fluctuating prices and the volatility of the international commodities market (Burkina Faso Embassy, USA, 2013). Burkina Faso's exports are mainly cotton, gold and, a relatively smaller amount of livestock, which together represent 78% of the country's export. The three products accounted for 10.5% of GDP in 2007 and 15% in 2010, and are exported as raw material, with very little value-added from processing. Furthermore, these exports contributed only 0.1% to the GDP growth rate of 7.9% in 2010.

Cotton, which forms the backbone of the agricultural sector, is processed and marketed by three corporations: SOFITEX, the oldest and largest, SOCOMA and FASO-COTON. Over the years, SOFITEX has suffered operational losses amounting to CFAF 86.2 billion for 10 FY2008 alone and farmers' groups have accumulated crop year credit arrears of payment of CFAF 4.355 billion in the local banks (African Development Fund, 2010).

There is no official definition for SMEs in Burkina Faso. The tax authorities consider any officially-registered firm with an annual turnover of 15-50 million CFA francs ($30 000 -$100 000) as a small or medium sized enterprise. The commerce ministry defines SMEs in terms of the number of employees (5-10 employees). There is no real data available on the population of SMEs either in the formal or informal sectors. It is assumed that they provide very many jobs, especially in the informal sector, including the countless cotton and vegetable farms that sell their crops. SMEs have limited access to traditional bank loans and applications by existing firms and especially those starting up are often rejected. When loans are offered the interest rates are very high (10-18%) and in most cases the provision is made for short-term working capital funding and rarely long-term (only 1% of all loans to the private sector). Mortgages are the most popular form of security with banks but these are not easy to set up since property rights were effectively abolished during the 1983-87 revolutionary government in favour of "urban residence permits". Although property law is being gradually normalised, this is likely to take a long time and prove to be very costly for the government.

Burkina Faso has, since the inception of the Doing Business Better Programme, introduced reforms to engage private sector development, with the support of TFPs, including the Bank. The outcome appears to be promising based on various reports that highlight national efforts to improve the business environment.

Questions of rural land tenure security remain a constraint to private investment in the agricultural sector. Other barriers faced by businesses include the high cost of factors of production, difficult access to financing, low labour qualification and the absence of legal and institutional mechanisms that encourage private sector business opportunities in infrastructure financing and management based on the public-private partnership (PPP) approach. A lack of economic diversification leaves the country exposed to exogenous shocks. There is a clear need for the business community to promote and diversify the economy, and especially to rely less on the primary sector, which employs the majority of the labour force and contributed 30.3% to total value-added in 2010 and 2.2% to GDP growth. Since the opening of a one-stop business centre to speed up creation of new firms some pronounced progress has taken place. Procedures have been simplified and new business applications can be approved in three days instead of a month (African Development Bank and OECD, 2005).

3.2.4. Barriers to Economic Growth, SME Development and Exports

Sub-Saharan Africa is regarded as the region in the world where it is most difficult to do business (World Bank 2010). There are, however, moderating factors to consider. The region includes countries with a relatively healthy business environment. For instance, Mauritius is ranked as number 17, well above the OECD-average and South Africa is ranked as number 34, better than countries such as Portugal, Spain and Luxembourg. On average however, Sub-Saharan African countries are scoring poorly.

Both sluggish and uneven growth and decline in the share of exports, suggest that different barriers and constraints are at work against the interest of export-oriented businesses. These barriers may occur as a result of various factors including international and/or domestic policies and from geographic or regional features through to internal barriers at the micro level within the firm, stemming from the absence of appropriate know-how, skills and training and access to resources.

External Barriers
In terms of external barriers, and as identified in Chapter 2, we can find a mix of:

a) procedural barriers;
b) governmental barriers;
c) customer and foreign competition barriers;
d) general business environment barriers; and
e) tariff and non-tariff barriers.

These are discussed below in the context of sub-Saharan Africa. International barriers which were reported to the USTIC, include, tariff-rate quotas, and export taxes. This suggests that significant barriers are found in the operational area of exporting and internationalisation. Domestic barriers include labour market policies, domestic price regulation, business regulations, and the inability to meet international standards, all of which represent a mix of governmental and general business environment barriers. According to the USTIC, domestic barriers represent the greatest type of barriers for most of the "eligible" African countries.

Governmental and Business Environment Barriers
When we look at the domestic barriers that the sectors with the greatest export growth potential face, we find labour and labour market issues, an uncertain business environment and infrastructure to be common, and by implication, the biggest barriers to exports growth in those countries. Uncertainty in business environment is often tied up with the absence of skilled labour and inadequate technical capability as it is with infrastructure problems. Poor infrastructure can impede mobility of both goods and services as well of talented people. Trade policy as in the coffee export tax in Uganda coupled with weak institutional arrangements hinders development and progress. The combination of all three elements often has a bearing on governance. These problems are also high on the agenda of constraints identified by SMEs.

According to the IFC (2006) there is a correlation between a well-functioning business environment and the number of SMEs per capita. However, there are certain regulatory elements that are more important to the SMEs than others. For example, red tape linked with starting a business would have a strong relationship with SME density because the process involved in starting a business is the very first hurdle that new entrepreneurs face. Regulations on hiring and firing are of vital importance to the SMEs in developing countries. Many SMEs struggle with developing a steady flow of business, especially within their first year.

Electricity and access to finance are the two highest ranked adverse factors affecting businesses in Sub-Saharan Africa. While electricity is considered the most important by close to 25%, access to finance is ranked as the most important hindrance by about 18%. Africa is the only region where electricity is considered the most important barrier. Infrastructure related barriers, often outside the control of SMEs, are a major hindrance to a firm's ability to operate effectively in both local and international markets. Uganda, for example, faces a number of challenges in terms of infrastructure, particularly energy and transport that represent major binding constraints to economic growth. Electricity shortages need to be addressed through improvement in electricity generation capacity, reduction of transmission losses, and adjustment of electricity tariffs to cost-reflective levels. Only a quarter of its national road network is paved.

For land- locked countries such as Burkina Faso, geography-related barriers, which have more to do with actual physical access to different markets, could be considered to be an extension of business environment barriers. The land-locked physical geography of the country makes it dependent on neighbouring country infrastructure for the movement of goods (Trading Economics, 2012). Relatively limited road air transport facilities and networks together with a weak telecommunications infrastructure exacerbate the problem of physical access to markets. Other African countries such as Kenya, Ghana,

South Africa and Nigeria have confronted the telecommunications infrastructure problem with significant advances in mobile telephony with the involvement of large telecom operators, thus allowing for the growth of mobile savvy new businesses which could compete in both the local and international market place.

According to the World Economic Forum Global Competitiveness Report Executive Opinion Surveys, during the period from 2008 to 2010, local executives were consistent in identifying access to financing, tax regulations and rates, inadequate supply of infrastructure, and corruption as the most problematic factors for doing business in Senegal. The same issues appear to be the primary constraints for SMEs. A 2009 study by Senegal's Directorate of SMEs found that 69% of SMEs listed investment finance as a major constraint, followed by the taxation rate (44%), lack of operating finance (42%), cost of production (31%), and the size of the market for business services (31%).

The labour issue reflects a human capital development problem which could be improved through specific forms of intervention at the local level of both the firm and the region (by government) impediments. Where SMEs find particular difficulty in making inroads they share in common with many other sub-Saharan African countries. Thus low literacy levels and the lack of skilled labour hamper prospects of opening up other sectors. The uncertain business environment, outdated technologies together with labour market rigidities and high business operating costs are other factors. The regulatory environment can leave the labour market inflexible to respond to rapid changes in the international market.

Tariff and Non-tariff Barriers

The set of international barriers is dominated by tariff and non-tariff barriers including, for example, non-tariff developed country agricultural support programmes and high tariffs on agricultural products. The availability of and access to transparent information about adequate trading standards is also an impediment to trading activities, as the USITC (2005) evidence for Cameroon and Uganda suggests.

Internal Barriers

Many of the constraints that SMEs face have a direct bearing on their capacity to be successful exporters. An efficient local firm has a better chance of engaging in exports than a weak small or medium sized enterprise. We note a direct correlation with external barriers which both reflect and can create problems within the firm. Where there are labour market rigidities there is generally a lack of incentive for re-training or skills upgrading. Poor infrastructure compels firms to operate within and accept constraints which limit growth. Only a few highly innovative firms can escape.

As stated earlier, the World Economic Forum Global Competitiveness Report Executive Opinion Surveys, for the period from 2008 to 2010 reported that local executives were consistent in identifying access to financing, tax regulations and rates, inadequate supply of infrastructure, and corruption as the most problematic factors for doing business in Senegal. These issues are also highlighted in the USITC (2005) report. We do not have access at this stage to specific issue in our group of sub- Saharan country SMEs, but reports in general have noted internal barriers on all fronts due in large part to the external constraints referred to above.

3.3. MENA Countries

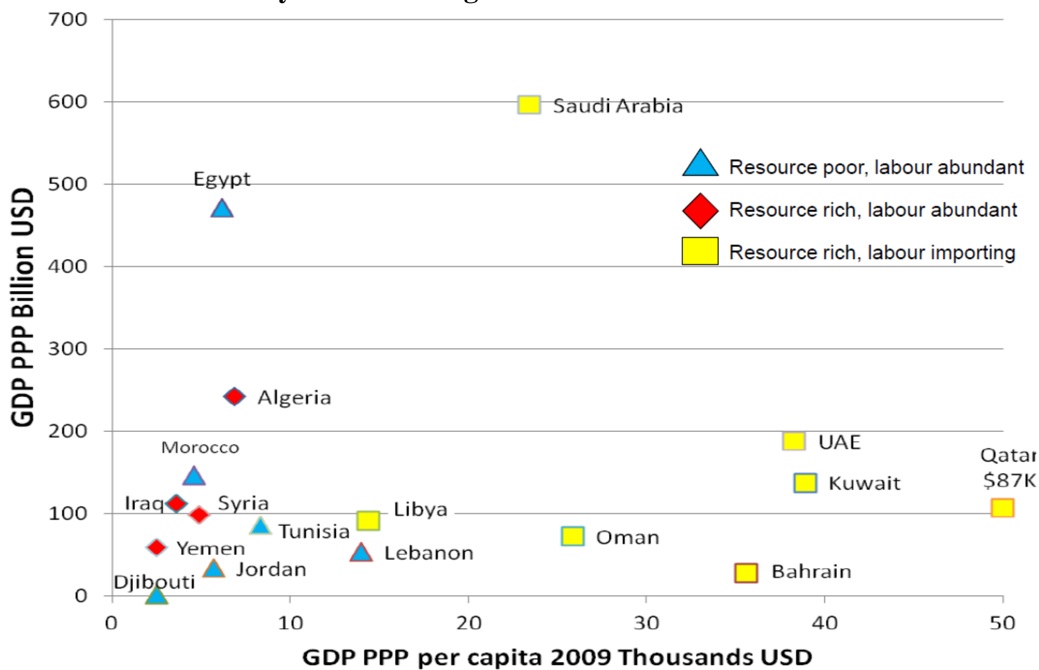
3.3.1. General Conditions

The MENA's (Middle East and North Africa) regional economic diversity includes the oil-rich Gulf countries together with the more resource scarce economies of countries such as Egypt, Morocco and

Yemen[6]. The price of oil and the legacy of state dominated economic policies and structures are the two factors that have shaped the MENA economies over the past twenty five years. In 2010, its total GDP amounted to US$ 1.2 trn and its GNI (formerly GNP per capita), using the Atlas method of calculation, to $3.866. More than 23% of the 336.5 million people of MENA live on less than $2 per day.

As the population in this region is growing more rapidly than other parts of the world, there are expectations of improvement in life expectancy, the quality of life, and infrastructure. Figure 3.2 shows the diversity across MENA countries, in terms of absolute GDP value against a purchasing power parity per capita basis. Saudi Arabia occupies a relatively lone position as the resource 'rich, labour importing country' at the top in absolute GDP value while Qatar has a significant lead on a purchasing power per capita basis. A cluster of labour abundant but either resource rich (Yemen) or resource poor countries take up lowly positions by both measures.

Figure 3.2 Structural Diversity of MENA Region Countries[7]



Source: IMF

In common with other regions, MENA countries' ability to be competitive in the export market is dependent on the strength, nature and quality of its domestic economies. Researchers argue that the short-run costs of adjustment to trade liberalisation and successful integration to global markets and global markets have generated large employment dividends. However, this association is also dependent on FDI inflows. Trade alone adds a little to job creation. Low value added exports and loose or poor links to global production networks together with a paucity of FDI may indeed reduce these countries' capacity for employment creation.

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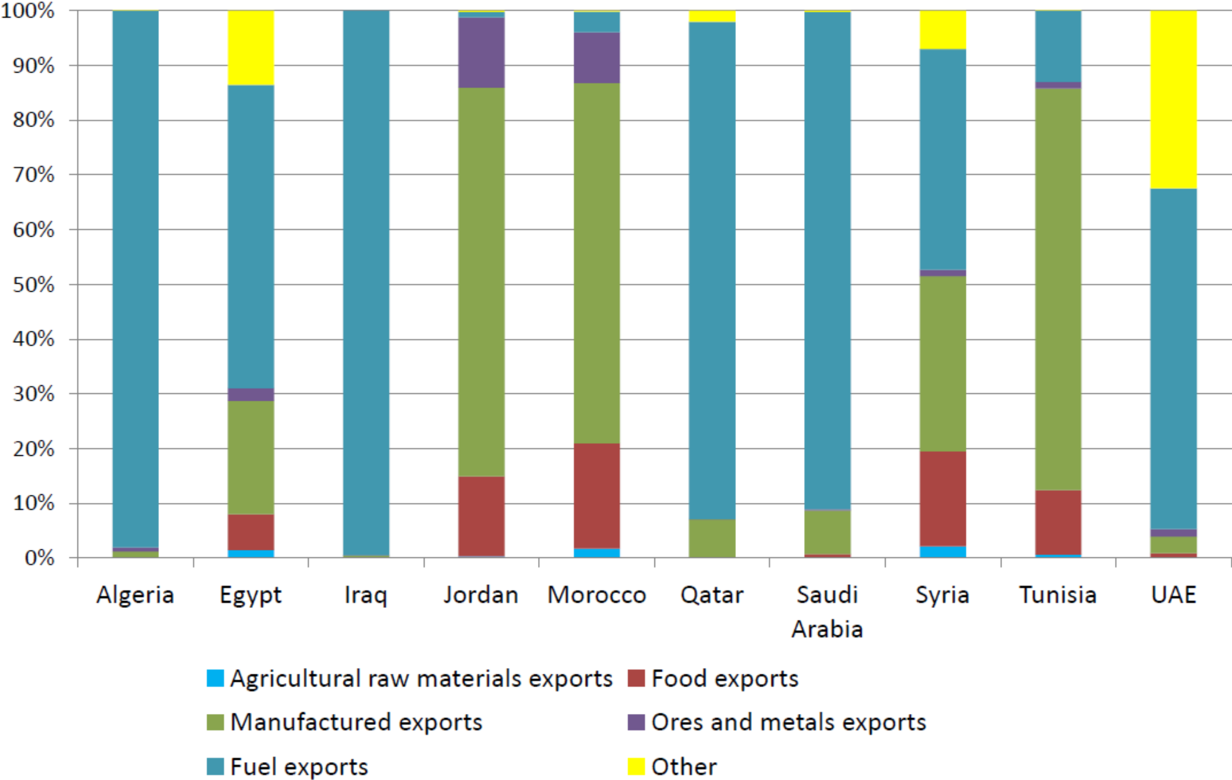
[6] Yemen, together with Iraq, Kuwait, Saudi Arabia and the UAE, is one of the main providers of the world's crude oil supplies.

[7] MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development, Tunis 29 March, 2010

MENA countries have enjoyed a total trade (imports and exports) to GDP ratio of about 70%, which is high by international standards. This indicator does, however, mask the particular factor endowments in the region. A high level of exports of oil together with the import of a major part of all other needs indicates limited capacity for local production and self-sufficiency, and therefore, high levels of economic vulnerability.

Figure 3.3: Merchandise Exports of MENA Countries



Source: OECD, Word Bank, WDI

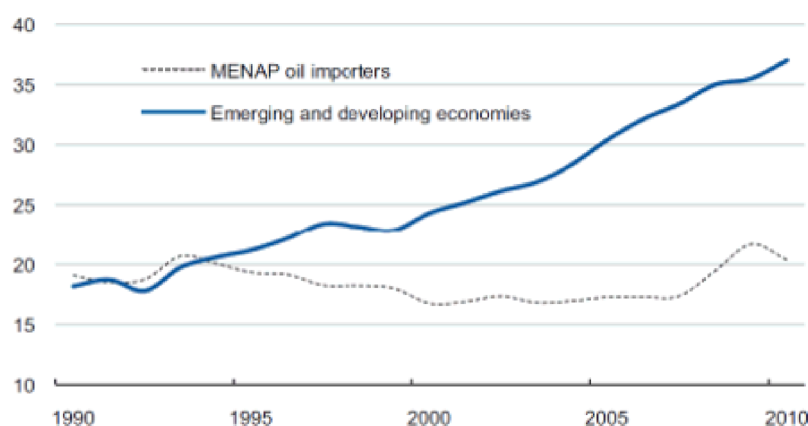
In this respect, the economies of the MENA countries do not all reflect the same upward or downward trends in growth, competiveness, infrastructure developments, international trade and exports, and SME activity. There are important differences between oil exporting and oil importing countries and between those which have introduced major structural changes and those which have not. While overall growth in the region is expected to be near the 5% mark, the economic growth of MENA's oil exporting countries is expected to be strong as it bounces back from 3.4% in 2010 to 5.4% in 2012. Oil importing countries, on the other hand are expected to grow at about half that rate.

Recognition of the structural diversity of MENA countries leads us to identify common or similar characteristics and overriding factors affecting particular groups of countries. We distinguish three intra-MENA group of economies – the oil importing nations, the oil exporting economies and those which have bucked the trend in the region.

Oil Importing MENA OICs

A high level of economic competitiveness is not a feature of these MENA countries. On average, oil importing countries in this region score poorly on most indicators.[8] Low levels of growth affect their ability to perform well in international export markets and relatively poor performance in exports deprives these countries from earning valuable foreign exchange. While emerging economies have doubled their share of global exports since 1990 (measured on a per capita basis) countries in the MENA region have only been able to maintain their share. The corollary for high export performance is in general high economic growth. Stagnant GDP growth in the region mirrors the low level of export share in the global market. Figure 3.4 shows the gulf of difference that has opened up in trade competitiveness between MENAP oil importing countries and their counterparts in the emerging and developing economies since the early 1990s.

Figure 3.4.: Difference in Trade Competiveness between MENA Oil Importing Region countries and Emerging and Developing Economies



Note: MENAP Oil importers include Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Syria and Tunisia as well as Afghanistan and Pakistan.
Source: IMF, World Economic Outlook; national authorities and IMF staff calculations

A sustained reliance on Europe based on both proximity and historical linkages accounts for around 60% of total exports since the 1970s. The Asia Pacific region attracted only 15% while Latin American countries accounted for a very low 1%. This imbalance indicates that the MENA countries have not been able to benefit from the high growth rates in Asian and Latin American countries. Part of this concentration on Europe can be explained by the basket of primary and consumer goods which are the mainstay of MENA country exports (64% of total exports which is close to 66% of most African countries). A simple comparison with these goods and the high technology, high value added and intermediate and capital goods, shows that is the latter category of goods (only 7% for MENA countries which compares favourably with the 6% for LICs and adversely with Asian countries and their share of 37%) which have seen high levels of growth in recent years.

Unlike some sub-Saharan African countries the MENA oil importing economies do not suffer from the disadvantages of proximity to markets, tariff rates, the existence of free trade agreements and cultural

[8] Some parts of the material on oil importing countries have been sourced from the IMF Report 'Trade Competitiveness and Growth MENA, by Masood Ahmed. (accessed 27-5-2013) . Oil importing countries include Egypt.

linkages, characteristics that generally drive a country's exports. The IMF argues that if the MENA countries had taken advantage of these characteristics in the same way that other middle income countries have done, its exports would have been 50% higher in 2008 than they were actually. Competitiveness, therefore, remains a critical issue for our selected group of countries. The different factors of competitiveness, such as human capital and openness to trade constitute the main barriers to operations in the global market place for many of the MENA countries.

Oil Exporting Countries (OECs)

An examination of the scenario of the OECs in the MENA region reinforces the point about structural diversity. Our selected countries – Saudi Arabia and Yemen – are at different ends of the economic spectrum. A direct comparison does not provide for meaningful analysis. This intra-OEC diversity warrants independent investigation in order that we can derive appropriate insights for policy development.

Saudi Arabia

Saudi Arabia has approximately one-fifth of the world's oil reserves. It maintains the world's largest oil production capacity and is the largest producer of all petroleum liquids. An estimated 54% of the country's crude oil exports was received by the Far East. It ranks second to Canada as a petroleum exporter to the US. Apart from crude oil, Saudi Arabia has the world's fifth largest natural gas reserves although natural gas production is limited. Excluding oil and gas services, the top economic sectors of the Saudi economy include electrical power systems, water resources equipment, safety and security equipment and chemical production machinery. The country grew at a rate of 7.1% in 2011 and although the oil sector continues to dominate the economy, improved budgetary institutions have reduced the connection between oil price and the level of fiscal spending with the objective of diversifying the economy. The non-oil sector growth of 8% is the highest since 1981, with the private sector, led by construction and manufacturing, growing by 8.5%. Of note is the government's decision to set aside a portion of extra oil revenues for future generations. However the continuing reliance on oil for fiscal and foreign exchange revenues suggests that the global oil market is the main source of risk. Sustained problems in the euro area could exacerbate the country's economic problems.

Yemen

By contrast Yemen is one of the poorest countries in the Middle East, with more than 45% of the population below the poverty line and a 35% unemployment rate (2003 figures). Current real GDP growth rate stood at -1.9 % in 2012 which compares favourably to -15% in 2011 when the GDP plunged dramatically due to the political unrest in the country. It is a fairly small oil and natural gas producer, ranking forty second in the world for total oil production with 156.4 (thousand) barrels per day and a crude oil production capacity of 154.14 (thousand) barrels a day (rank 40). Petroleum accounts for approximately 25% of GDP and 60% of government revenue. Yemen's location along the Bab el-Mandab provides the country with a strategic advantage as far as world oil shipping routes are concerned. An estimated 3.5m barrel of oil passed daily in 2010 on this route. Between 2011 and 2012, Yemen's net trade figures have declined from a deficit of -12.52 to – 30.46 (thousand barrels per day).

Asian markets (China- 29.5%; Thailand- 13.4%; South Korea- 10.6%; India, 7.5%) account for the most part of Yemen's exports. The country's total estimated exports in 2012 was $7.958 bn Net exports are on a declining trend with growing domestic consumption and decreasing production. Its other exports include coffee, dried and salted fish and liquefied natural gas. The country has tried to diversity its economy through a reform programme. Over a period of 9 years (2000-2009) exports have increased from 4.076m US$ to 5.360 US$ or a growth rate of 31%

Countries which are Bucking the Trend
The reduction of internal trade barriers is a matter of institutional strength and capability. Action on that front is also dependent on raising education standards on the one hand and promoting intra-regional trade together with a higher level of alignment in trade with Asian tigers. Where such action has been taken we find countries such as Egypt and Tunisia bucking the trend. While Tunisia has emerged as an outsourcing hub for textile production, car assembly and food processing in the region, Egypt is fast becoming an important player in IT. Both countries have been able to attract high levels of foreign direct investment.

Egypt
Egypt is the second largest economy of the continent and is ranked 25th globally. The Egyptian economy is well-diversified and driven by the tourism industry, the oil and gas industry, trade services and agriculture. Egypt has begun to attract global ICT investment from giants such as Microsoft, Vodaphone, Oracle and IBM, and her IT exports have gone up from US$ 250m in 2005 to approximately US$ 1bn in 2010. The 'Smart Village' in Cairo accommodates most of Egypt's IT industry employing around 22,000 people. This success is attributable to recent structural reforms, improvements in the business environment, and public investment in infrastructure and language skills.

Despite the relatively high levels of economic growth in recent years, living conditions for the average Egyptian remained poor and contributed to public discontent. The estimated GDP for 2012 is about 537.8 billion US$. The growth has been declining since 2010 from 5.1% to 1.8% in 2011. For 2012, a slight rebound has been noticed around 2% .The GDP per capita is 6600 US. Between 1980 and 2012 Egypt's HDI rose by 2.1% annually from 0.407 to 0.662 today, which gives the country a rank of 112 out of 187 countries with comparable data. The HDI of Arab States as a region increased from 0.443 in 1980 to 0.652 today, placing Egypt above the regional average.

Egypt is a major actor in terms of exports and imports among the OIC. In 2011, it was ranked at the 7th position of export (3.69%) and at the 10th position for import with a share of 3.49%. The trade deficit remained on the rise, to record US$ 31.7 billion in FY 2011/2012 (against US$ 27.1 billion a year earlier), reflecting the surge in merchandise imports by 8.5% to record US$ 58.7 billion in FY 2011/2012, while merchandise exports remained unchanged at US$ 27.0 billion during the same period.

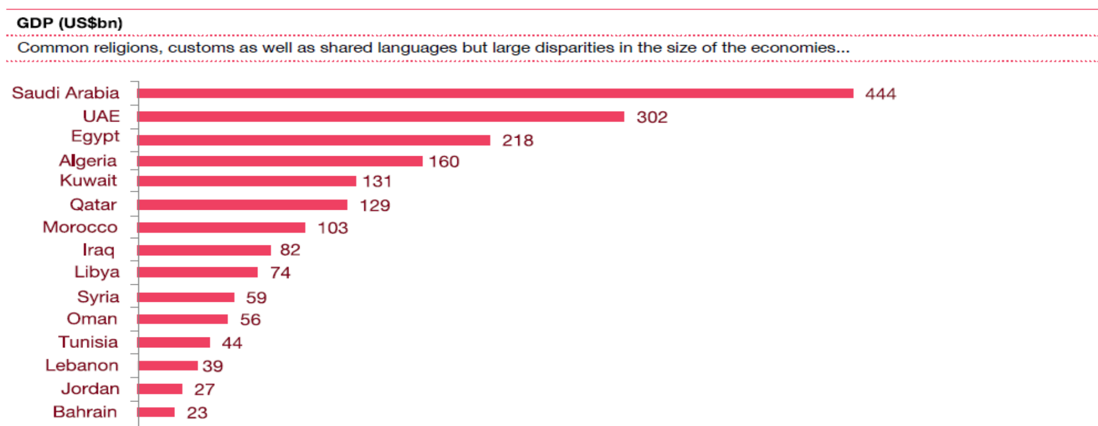
Egypt is implementing its WTO commitments and has been a leading negotiator in the Doha Round. It has cut custom duties as well as a multitude of different charges and levies and numerous tariff schedules. It has reduced its tariff rates on several imported items, including capital goods, which brought down the average weighted tariff rate from 21% in 1997 to 5.5% in 2009, with an average tariff rate of 5% on capital goods Egypt has considerably liberalised its economy and opened it up to foreign trade. It has expanded its network of regional and bilateral trade agreements and protocols with its main trading partners, the EU and the US. Foreign trade (exports and imports) has increased from just over 30% of GDP in 2003-4 to 56.9% in 2008-9. The signing of regional trade agreements has led to rising trade with neighbouring Arab countries in the last decade. Indeed, in 2008-9, Arab countries represented an 11.4% share of Egypt's total trade, up from 8.9% in 2003-4 and 5.3% in 2000-1.

The most recent figures, from February 2013 to March 2013, indicate that Egypt's exports have increased to 2763m US$ from 2621m US$. These figures are close to the historic high of 2991m US$ reached in June, 2008 and a far cry from the record low of 12.63m USS in July of 1959. Exports account for one quarter of Egypt's GDP, with oil and other mineral products taking a 32% share of total exports. Non-oil products such as chemical products (12%), agricultural products, livestock and others fats (11%) and textiles (10.5%, mainly cotton) account for another 33.5%. The rest of Egypt's exports include, among others, base metals (5.5%), machinery and electrical appliances (4.5%) and foodstuff, beverages and tobacco (4%). Egypt's major export partners are Italy, Spain, France, Saudi Arabia, India, Turkey, the United States, Brazil and Argentina.

3.3.2. Interdependencies in the MENA region

Although the MENA countries GDP per capita (US$ 7,690) is nearly double that of China's, it is difficult to see the countries as a whole being able to take collective advantage of this wealth because of the structural diversity in the region. There are common religions, customs and shared languages but considerable disparities in the size of the economies (Figure 3.5). This level of diversity can put a brake on interdependencies in the region, a problem exacerbated by the dependency of oil exporting countries on non-MENA destinations. There are, however, some positive signs of growing intra-OIC trade both within and outside the MENA countries which reflect the growing nature of interdependencies echoing much of what is happening in the wider South-South nexus of the OIC.

Figure 3.5: Diverse Economies in the MENA Regions (by GDP)



Source: Bazian and Balze, Insead/PWC, 2011

Examining the figures of a country bucking the trend, Egypt, we find that the share of intra-OIC exports of this country has increased from 12% to nearly 23% in 9 years (Table below). The range of products stretches from petroleum to textiles and cereals which could also suggest a sharper focus on trade between these countries now and in the future. Egypt is a major actor in terms of exports and imports among the OIC. Figures for Saudi Arabia also show an upward trend (see Table below) although the share in intra-OIC exports has not increased as dramatically as in the case of Egypt. A greater reliance on petroleum exports may account for the difference.

Table 3.6: Intra-OIC trade data (Egypt), 2000-2010

Egypt	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World exports (in millions US $)	5633	4141	6971,1	8301	10500	10652,12	13756,31	16096,28	29317,4	24818,1
Intra OIC exports share in %	13,81	18,65	14,69	15,76	27,76	23,82	35,76	39,93	27,08	29,88
Intra OIC trade share in %	12,02	16,29	13,37	14,56	20,88	22,99	32,21	33,42	21,25	22,91
Main intra-OIC exported products (2008)	Petroleum/petroleum products, natural gas, Iron and steel, non–metal and mineral products, textiles and cereals									
Main Customer (2009)	Saudi Arabia, Syria, Jordan, Turkey, U.A. Emirates, Sudan, Iraq, Morocco, Indonesia, Pakistan									

Source: ICDT

Table 3.7: Intra-OIC trade data (Saudi Arabia), 2000-2010

Saudi Arabia	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World exports (in millions US $)	74688	70453	66703	86219	112107	181054,54	190210	234950,76	279547	173232	227750
Intra OIC exports (in millions US $)	10141	10298	9390	11643	18033	30446	31033	35035	42646	27702	35916
Intra OIC exports share in %	13,58	14,62	14,08	13,5	16,09	16,82	16,32	14,91	15,26	15,99	15,77
Intra OIC trade share in %	12,86	11,54	10,94	11,05	14,92	14,85	14,77	14,06	14,66	14,3	15,11
Main intra-OIC exported products (2008)	Petroleum and pretroleum products, natural gas, organic chemicals, dyes and coloring material, inorganic chemicals										
Main Customer	Pakistan, Indonesia, Bahrain, U.A. Emirates, Jordan, Syria, Egypt, Turkey, Morocco and Kuwait										

Source: ICDT

Sustaining and growing interdependency will be a function of improved economic conditions, better framework conditions and increased industrial diversity. As part of a circular argument, gradual increases in intra-OIC activity may enable these improvements to occur.

3.3.3. SMEs in the MENA Region

In general terms SMEs are regarded as an effective enabler of economic growth. This is in part manifest in the growth in the number of start-ups which has increased eight times in 2011 as compared to 2005, with Egypt together with Lebanon, the UAE and Jordan attracting the most of early stage investments (Dubai Internet City and Frost and Sullivan). Governments in the region are also seeking to drive economic growth through business friendly policies. Some countries such as Egypt, Saudi Arabia, Jordan and the UAE have started incubation programmes, ICT funding, and tie-ups with international governments and private equity firms, thereby demonstrating a commitment to innovation.

The current definition for SMEs in the MENA region varies between countries. While Saudi Arabia and the UAE tend to use markers close to the European definition, Jordan and Egypt restrict medium sized firms to 100 employees SMEs have caught the attention of policy makers as they are seen as possible solution providers to the problems of high unemployment and in some cases poverty, the declining levels of employment in the public sector,

SMEs in Saudi Arabia

According to the World Bank, the SME sector currently forms 90% of all Saudi companies, yet the sector only contributes a quarter of total employment and about a third of the country's gross domestic product.
The country’s SME sector remains inadequately financed. The share of bank loans that are received by SMEs is below the levels of other countries. This inadequacy has a ripple effect on the capability of SMEs to operate effectively in the exports market. To address this problem, the government has allocated US$ 5bn to the Saudi Credit and Savings Bank in order to finance small businesses. It is anticipated that a similar amount of money will be transferred to the Saudi Industrial Development Bank to support bank

credit to SMEs (Kafala) and other lending. The Saudi government has now taken progressive action to support and foster SME exporting activities. An Export Development Authority is intended to be launched mid-2013, at the initiative of the Ministry of commerce and industry, with a particular emphasis on helping energy-oriented SMEs sell their products outside the country. However, as mentioned above, several measures of the 9th Development Plan indirectly deal with some of the main constraints inhibiting SMEs to export. Some provisions of the 8th Development Plan (2005-2009) were also indirectly designed to help exporting SMEs.

SMEs in Yemen

SMEs account for 96% of GDP and constitute one of the main focus of the Government. SMEs enjoy much better access to loans than their other MENA counterparts with the exception of Morocco (see Figure above). Many institutions are involved in the process to support SMEs.

The Small and Micro Enterprises Development unit (SMED) is the unit in the Social Fund for Development responsible for contributing to the development of the small and micro finance (SME) sector in Yemen. It acts as the main arm for direct economic development in the Social Fund. Yemen Microfinance Network (YMN) which supports the microfinance sector enhances its growth towards expansion and transparency through the provision of training, capacity building, and information exchange between MF institutions. The Small Enterprises Development Fund (SEDF) is a financial institution specialized in lending to small enterprises, SEDF which supports and encourages SMEs through a range of objectives, including the financing and development of SMEs in all areas of production, services and trade, the creation of new job opportunities, the encouragement of projects that work on the basis of interrelationship between industries, increasing the use and development of manpower and local skills, the replacement of imported products with local ones and the provision of assistance for the export of local products.

SMEs in Egypt

In Egypt, there are around 2.5 Million SMEs representing 75% of the total employed workforce and 99% of non-agricultural private sector establishments. SMEs are highly skewed at the geographical level (about 50% of SMEs are located in only 3 districts). Such skewness is also observed at the sectoral level since almost 90 % of them are concentrated in just two sectors namely the manufacturing sector (51%), followed by the whole sale trade (40%). This is due to the fact that the entry barriers in terms of capital, skill and technology characteristics are low, especially in the trade sector. SMEs do not perform very well on international markets since only 6% of SMEs export, while the remaining serve only the domestic market. This may be explained by differences in factor endowments and in access to financial services.

The profiles of the countries mentioned above suggest that there are considerable differences in the capacity and scope of different economies in each of the three sets of MENA countries. These differences make it even more difficult to recommend standardised policies for the MENA countries let alone all OIC countries. Not only are regional factors of geography and topography at play distinguishing each country in the region but so are issues of exposure to the market, the levels of skills development, the appropriate functioning of SMEs and critically the depth and breadth of institutions that can support export-led economic development. There are degrees of urgency that differentiate countries such as Saudi Arabia and Yemen. Fluctuating oil prices and weaknesses in western economies affect both countries but the extent of market share in that industry of the former country protects it from immediate exposure to weakness in other potential exporting sectors. Larger sums of oil revenues provide it with a better opportunity to diversify their economies.

3.3.4. Barriers to Economic Growth, SME Development and Exports in MENA Countries

IMF, World Bank and other reports covering different aspects of competitiveness from education standards and quality, through to the robustness of institutions, and favourable business framework conditions, suggest that countries in the MENA region do not perform well when these indicators are used. Education outcomes together with the quality of education tend to be lower than those in other regions. There is also a shortage of skills required to operate effectively in the global arena due probably in part to an excessive reliance on government jobs and less on the private sector.

External Barriers

Business Environment and Structural Barriers
A business environment that is conducive to supporting dynamic private sector growth, entrepreneurship and innovation, is also seen as being important for firms engaged in international trade. The World Bank Ease of Doing Business Report indicates that MENA countries lag behind their Asian counterparts. This could be due to the regulatory and legal environments which have not kept up with developments elsewhere. A higher proportion of resources being spent on consumption (for example civil service wages) and less on investment, as a percentage of GDP (in comparison with Asian countries), could account for the absence of favourable framework conditions.

Saudi Arabia's oil and gas exporting strengths also exposes its vulnerability to changes in prices in this commodity market, increasing concerns over fossil fuel consumption, the growing availability of alternative fuel sources, and the weakening of the economies of the traditional destination countries in Europe. Despite the growth in demand for oil from China and other Asian economies, other factors mentioned above are beginning to affect the industry. Previous dependency on oil has meant the neglect of other industries.

Yemen's problems are different. As a poor country it cannot rely much on oil exports not least because its production capacity is low compared to most oil producing countries. Recent surges in oil prices may provide temporary respite but it will need to adopt a pro-active strategy for promoting its other exports including coffee and salted fish. It is possible that some of this will need to be done in conjunction with other countries in the region. Given it strategic location in the Bab-el –Mandap, shipping services and logistics could also play a part in overcoming the obstacles to exports and to economic development it faces now and in the future.

Despite the relatively high levels of industrial diversity which helps the country to buck the MENA trend in either over reliance on oil or limited economic activity, there is limited evidence of Egypt's capacity of exports in many of the industries which have benefited from structural reforms and FDI. Egypt remains a country with little industry. With its diverse natural reserves (gold, minerals, iron, oil and gas), the oil and gas-related activities together with the secondary sector, account for just over a third of the GDP. Egypt is the world's sixth largest exporter of natural gas. Finally, the tertiary sector represents around 50 % of the Egyptian GDP and employs 45% of the population. It is largely dominated by revenues from telecommunications and from tourism (the tourist industry brings nearly USD 11 billion in annual revenues). The growth trajectory has been affected by the recent political crisis in the country.

A reliance of larger oil industry businesses, their technologies and management skills, has also resulted in a shortage of labour and entrepreneurial capacity for the nurturing of alternative sectors especially the new added value service or knowledge-based industries. The deficit in the 'soft infrastructure' compromises the country's capacity to push firms to the frontiers of competitiveness in the local market let alone see them as efficient operators in the exports market. A range of government actions aimed precisely at addressing these issues including the improvement of education standards and achievement

levels indicate that attempts are being made to diversify the economy over time. Saudi Arabia shares some of these problems, as well as the measures being adopted to wean the country out of oil dependency.

Internal Barriers

The general environment for a business environment that is conducive to the growth and sustainability of SMEs, especially the recently established ones, remains elusive in MENA countries. SMEs in the "missing middle" struggle to obtain finance to expand their businesses and are largely ignored by investors and government agencies which tend to prefer start-ups or large and well- established businesses. Typically, "the missing middle" account for 40% to 70% of the MENA SME market. They have modest revenues and employ no less than 6 and no more than 150 people. Compared to start-ups they have more potential to create jobs and explore new markets. Contrasted with larger SMEs, they are less exposed to risk, which in the current climate of and a growing population in many countries of the MENA region. Risk aversion should make them more attractive to investment. Table 6 below shows the variation in firm capacities between the start-ups, the missing middle and the larger firms.

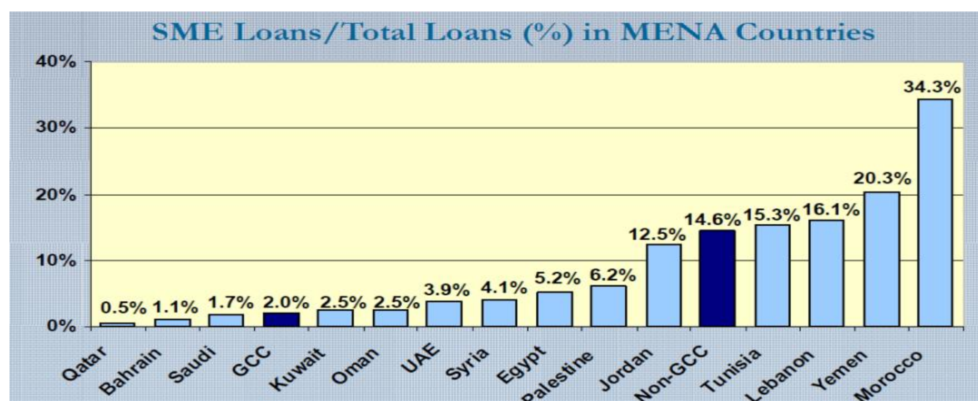
Table 3.8 Different Types of SMEs in the MENA region

START UPS	MISSING MIDDLE	LARGE BUSINESSES
	LOW ACCESS TO CAPITAL	
• Informal/not registered; Start-ups, MSMEs	• Formal/registered small & medium enterprises	• Large+ Businesses
• < 10 employees	• 6–150 employees	• > 150 employees
• Appeals to micro-finance and government funds; donors • Business skills may or may not exist	• Unable to secure traditional financing (lack of collateral, track record and/or guarantors) • Lack business skills necessary for viable long-term growth	• Appeals to private equity, venture capital; traditional finance, banks, etc. • Business skills contribute to efficiency, scale & sustainability
• Seeking < US$50K	• Seeking US$50K–2M in additional finance	• Seeking > US$2M • High access to capital

Source: Al-Yahya K and J. Airey (2013)

The level of financing of SMEs varies significantly from country to country with the oil exporting countries providing limited access to SME loans as a proportion of all loans. A greater urgency for diversification in the oil importing and poorer countries of the region has resulted in increased levels of SME loans. Figure 3.6 shows that the proportion of SME loans in Yemen was 20.3% compared to 1.7% in Saudi Arabia.

Figure 3.6: SME Loans as a proportion of all Loans in MENA Countries



Source: World Bank and Union of Arab Banks, 2010

Although new initiatives are in place to boost entrepreneurship and SME growth in the country these are localised activities. The dependency on the oil and gas industry continues to restrict the possible development of SMEs in that the latter do not form part of the key producer stakeholder group of businesses involved in the sector. SMEs are of course involved in services, but it is the production and export of crude oil which has generated significant revenues to date and which are increasingly vulnerable to fluctuating prices and environmental concerns associated with fossil fuel use. This problem, together with a reliance on the public sector for employment, compounds the shortage of entrepreneurial capacity. However, it has to be acknowledged that the availability of such revenue is also contributing to the development of new initiatives aimed at SMEs in other sectors.

In a relatively poor country such as Yemen SMEs are severely constrained in terms of size, lack of information, relatively low levels of skills, and poor marketing facilities. There is almost an exclusive reliance on personal sources – family and/or work in other (often also small) enterprises for the development of their technical and business skills. There is virtually no formal system of technical or vocational training. The nature of their operations means that SMEs often locate their premises on a busy road, in markets, or where many other similar SMEs operate. An SME Baseline Survey carried out in 2000 found that 90% of SMEs sell their output mainly to final consumers, which reflects underdeveloped marketing systems, strategies or tactics. Despite their share of GDP, very few enterprise sell to export markets. Problems arising because of the absence of support services are compounded by weak local chambers of commerce. Very few SMEs belong to Chambers of Commerce or sectoral business associations.

Despite the fact there is a welcome level of economic diversity in Egypt, SME representation is heavily skewed at both the geographical level and at the sectoral level. Where they do have a presence, the smallness of their size and relatively low levels of technological capabilities, as evinced in the nature of manufacturing, for instance, prevents them from being serious contenders in the international market place. The recent spurt of growth in ICT might help the country to diversify in the future and enable Egyptian SMEs to engage in the technologically (ICT) driven global production networks of advanced manufacturing.

Relatively low levels of skills, inadequate access to finance, and the absence of institutional support structures are some of the important factors affecting the development and scaling up of alternative industries. The lack of capacity hinders the capability of SMEs to participate fully in export markets.

3.4. Asian OICs

3.4.1. General Conditions

Economic growth in Asia has now acquired legendary status with average growth rates of between 6%-8% over the last decade helping Asian economies to take pole position in the global economic race. China has led the way with even higher levels of growth sustained throughout the last ten years. The second largest player, India (a distant second to China) has experienced fluctuating growth rates which have compromised its economic development. Both countries have had a considerable influence on trade in the region and indeed across the world. The OIC countries of, for example, Malaysia, Indonesia, Pakistan, Bangladesh, have kept pace with accelerating growth in the region with impressive growth rates of around 6% , some of which has been driven by global factors and others by the more pronounced developments in the BRICS, especially China. Of equal importance are some of the interventionist policies which have sought to reduce bureaucratic hurdles, ease credit flows and offer a range of support services from training to access to relevant information.

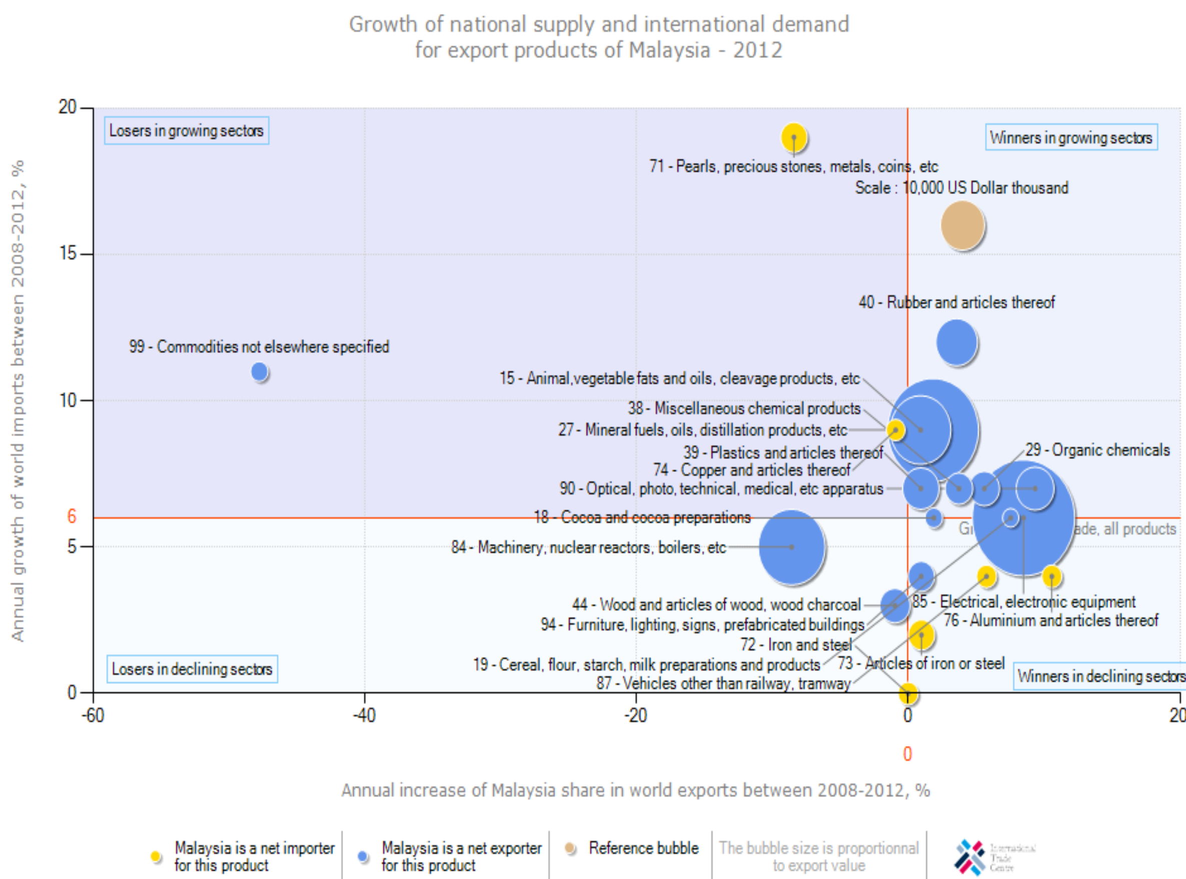
Malaysia

The Malaysian economy recorded an average growth of 5.5% for the period 2005-2008. Real gross domestic product (GDP) growth which was 5.3% in 2005, increased to 5.8% in 2006 and 6.2% in 2007 before slowing down to 4.6% in 2008. The private sector remains the main driver of economic growth. Private investments for the period 2005-2008 grew by 6.3% per annum and increased capital spending was recorded particularly in the manufacturing and services sectors. The average growth rate of net foreign direct investment (FDI) inflows from 2005 to 2008 was 11.5%.

The manufacturing sector grew by 4.1% contributed by production of both export and domestic-oriented products for the period 2005-2008. Growth in export-oriented industries was mainly supported by higher production in electrical and electronics (E&E), petroleum products, rubber products and machinery and equipment. For domestic-oriented industries, growth emanated from expansion in the production of chemicals and chemical products, construction-related materials and transport equipment. Malaysia's trade continued to record a surplus since November 1997. Exports registered an average of 8.5% growth for the period 2005-2008. In 2007, exports expanded, albeit at a lower rate of 2.7% due to decline in demand for manufactured goods. However, the surge in commodity prices helped to push export value up by 9.6% in 2008. The US, Japan, China and ASEAN member countries continued to be Malaysia's major trading partners with a combined average share of 60.0% of total exports from 2005-2008.

Comparing imports with exports, Figure 3.7 shows that in 2012, Malaysia’s exports of electrical and electronic equipment, aluminium goods, and organic chemicals have driven its growth alongside the traditional rubber industry products. Food products also fare well, although together with electrical equipment these sectors are winners in declining sectors.

Figure 3.7: Malaysian Exports and Imports 2012



Source: ITC

Trade policies have focused on both internal and external improvements to ensure that exports continue to grow. Malaysia is actively promoting trade in new and emerging markets, such as China, India, Middle East and the new EU members. With the current focus on promoting the development of the services sector, promotional efforts will also be intensified for the export of services. The trade regime has been progressively liberalized to encourage integration at the regional and global level.

Indonesia

Indonesia grew by more than 6% annually in 2010-12, thanks to the promotion of fiscally conservative policies, resulting in a debt-to-GDP ratio of less than 25%, a fiscal deficit below 3%, and historically low rates of inflation. The World Bank forecasts the GDP to rise marginally to 6.3% in 2013.From 2007 to 2011; Indonesia's GDP grew by an average of 5.9% per year. GDP per capita doubled in value from US$1,859 to US$3,495 while the incidence of poverty declined from a post-crisis peak of 24% to 12.4% in 2011. However, in common with sub-Saharan Africa and countries in the MENA region, over 50% of the population still lives on less than US$2 a day (purchasing power parity).

Indonesia is the world's most important palm oil producer, the second largest natural rubber producer and the third largest rice producer. Agriculture, forestry, and fishing contributed 14.7% of GDP in 2011 and engaged an estimated 35.9% of the employed labour force, continuing to provide employment to more than 40 million persons. Principal crops for domestic consumption include rice, cassava, and maize. Services provided 38.1% of GDP in 2011 and engaged 43.5% of the employed labour force.

Manufacturing contributed 24.3% of GDP in 2011 and engaged an estimated 13.3% of the employed labour force. Table 10 below shows a breakdown by industry of the main sectors of the Indonesian economy.

Table 3.9: Share of Main Sectors in GDP, 2007-11

Indonesia	2007	2008	2009	2010	2011
Agriculture	13.7	14.5	15.3	15.3	14.7
Mining and quarrying	11.2	10.9	10.6	11.2	11.9
Manufacturing	27	27.8	26.3	24.8	24.3
Electricity, gas and water	0.9	0.8	0.8	0.8	0.8
Construction	7.7	8.5	9.9	10.3	10.2
Services	39.5	37.5	37.1	37.6	38.1

Source: WTO

In 2011, fuels accounted for 33.9% of exports, up from 25.6% in 2007. The bulk of Indonesia's remaining exports consist of primary and semi-processed agricultural and mineral commodities. The most important of these have traditionally been rubber, coffee, tin, shrimps and palm oil. Indonesia is currently the largest producer and exporter of palm oil, having about half of the global export market. The overall value of exports of goods in 2012 came to 188.1 billion US dollars (fob), down 6.3% from the previous year, mainly due to the decrease in exports of manufactured products and mining products as a result of weakening world demand and the decline in export prices. In non-oil and gas exports, the decline in export performance of manufactured products and mining products took place between mid-2011 until mid-2012. Declining demand in the traditional international market place of Europe has contributed to the slowing down of the growth of exports in the manufacturing sector especially in manufactured rubber, chemical, base metal, electrical, and textile and textile products. However, exports of crude palm oil (CPO) were still registering a positive growth that helped to sustain exports of manufacturing products and record positive growth. Table 11 below shows the trends in growth or decline of non-oil and gas exports.

Table 3.10: Non-Oil and Gas Export by Commodities (Real Value)

Commodity	2007		2001		2012	
	Growth (%)	Share (%)	Growth (%)	Share (%)	Growth (%)	Share (%)
Coal	5.5	9.7	12.6	10.7	7.6	11.3
Palm Oil	-12.1	5.3	-1.7	4.5	16.8	5.2
Textile and Textile products	3.6	16.2	9.6	15.8	-3.4	15
Electrical apparatus	-7.8	7.7	-9.4	5.8	-0.8	5.7
Chemical product	6.6	3.2	22	2.2	-18	1.8
Rubber	2.1	2.3	28.3	6.3	-24.6	4.7
Paper	10.1	2.7	-10.3	1.8	-9.5	1.6
Copper	-17	2.4	-33.5	2.4	-45.1	1.3
Other	7.9	50.5	20.3	50.5	70	53.4
Total	3.5	100	12.1	100	1.3	100

Source: BPS-Statistics Indonesia

Bangladesh
Bangladesh has made important strides over the past decade. The average GDP growth of the Bangladesh economy over the last six years was over 6%, increasing to an estimated 6.7% in FY2011. , aided by conducive policies, strong export growth and favourable weather. GDP growth was broad-based with agriculture, industry and service sectors performing well.

In FY2011, agricultural growth is estimated at 5.0%, as all major crops performed better than expected, responding to favourable weather conditions. Continued policy support (including access to inputs at subsidized prices), better forms of access to credit, and improved extension services have contributed to these impressive growth rates. Services, which account for half of Bangladeshi GDP, grew by 6.6%, marginally better than a year earlier. The trade, transport, and telecommunications subsectors continued to perform well. Industry grew briskly by 8.2%, largely on the back of a strong recovery in garment exports. Industries targeting the domestic market, as well as construction and housing activities, also contributed. Investment rose marginally to 24.7% of GDP, from 24.4% the previous year.

External trade is currently dominated by exports and imports of manufactures in contrast to the situation prevailing 30 years ago when jute and jute products were the principal export items. Exports remain highly concentrated both in terms of products and destinations with readymade-garment (RMG) exports to the EU and the U.S. the current mainstay. Even though its exports have increased significantly, Bangladesh still suffers from a chronically weak foreign trade account because of its dependence on imports of most essential goods, including fuel. Table 3.11 shows the composition of Bangladeshi exports in 2008-2010. In global terms, Bangladesh's share of total world merchandise exports remains small at around 0.1%, while its share of commercial services is only 0.02%. Overall, the country ranks 76th in merchandise exports and 120th in commercial services exports among 180 countries.

Table 3.11: Export Performance of Various Products (US$ Million)

	Jute Goods	Leather	Frozen Food	Engineering Products	Pharmaceuticals	RMG
FY2008	318	284	534	220	43	10,700
FY2009	269	398	454	189	45	12,348
FY2010	540	226	445	311	41	12,497

-

Source: Bangladesh Bank (Table 2.2 of Sixth Plan Accelerating Growth and Reducing Poverty Part-2 Sectoral Strategies, Programs and Polices).

Indonesia and Malaysia, as the bigger architects of the Asian growth miracle have more in common with each other than their other OIC counterpart, Bangladesh. The abundance of exclusive commodities such as palm oil continues to sustain their growth. However, unlike some of the MENA countries, both Malaysia and Indonesia have sought economic diversification through high levels of investment in technology and skills development coupled with increased FDI. This critical distinction has carved out productive positions for them in the global economy. Bangladesh’s growth rates are impressive but there is an overwhelming level of reliance on the RMG sector, where many of the SMEs are located. Climatic conditions and underdeveloped institutions make the country and its SMEs vulnerable to small changes which can have a dramatic effect.

3.4.2. Interdependencies

Growth in intra-OIC trade activities are a sign of positive interdependencies across all Asian OICs. This pattern of growth in intra-OIC trade is reflected in the trade figures for Asian OICs although the rates of intra-OIC export has grown at a slightly less impressive rate for countries such as Indonesia than those of sub-Saharan Africa. Both intra-OIC trade share and the proportion of intra-OIC exports increased over the years from 2000 to 2009, with a modest fall in 2001.

Although the US, Japan, China and ASEAN member countries continued to be Malaysia's major trading partners with a combined average share of 60.0% of total exports from 2005-2008, Malaysia is actively promoting trade in new and emerging markets, such as China, India, Middle East and the new EU members. With the current focus on promoting the development of the services sector, promotional efforts will also be intensified for the export of services.

For Bangladesh, exports remain highly concentrated both in terms of products and destinations with readymade-garment (RMG) exports to the EU and the U.S. being the current mainstay. To a great extent interdependency among Asian OIC Countries is being driven largely by China and less so by other OIC countries. China's rapid economic advance, the size of its economy and the diversity of products and services that it uses offers significant opportunities for countries in geographical proximity.

3.4.3. SMEs in OIC Asia

SMEs represented approximately 99.2% of the entire business formations in Malaysia in 2010. Malaysian SMEs remained resilient and continued to expand at a relatively strong pace of 6.8% in 2011 despite the challenging external environment. SMEs are expected to record a steady growth pace of 6.5 - 7.0%, mainly driven by the services sector (90% share of all industries) and domestic demand in 2013. According to the last 2012 Census, SMEs now represent 97.3% (645,136 establishments) of the total establishments of 662,939 in the country. The positive development over the years has resulted in SME contribution to GDP increasing gradually from 29.4% in 2005 to 32.5% in 2011.

In Bangladesh, SMEs including micro enterprises comprise over 99 per cent of all industrial units, contributing over 85 per cent of industrial employment. Focusing on the 10+ units, small units constitute 87.4 per cent, followed by medium and large units comprising 5.7 and 6.9 per cent respectively. In other words, 81 thousand SMEs all together constitute more than 93 per cent of the total 10+ units. These small units contribute to 35 per cent of the employment, followed by medium and large units comprising 8.8 and 56.0 per cent respectively. In other words, SMEs employ 1.3 million people, constituting 44% of employment generated by 10+ units. Recent estimates obtained from two major micro surveys, International Consulting Group (ICG) study and South Asia Enterprise Development Facility (SEDF) survey suggest the SME contribution to manufacturing value added to be in the range of 20% to 25%% (Ahmed 2008; Bahar and Uddin 2007). The micro, small and medium enterprises (MSMEs) together employ a total of 31 million people, equivalent to about 40 per cent of the population of Bangladesh, aged 15 years and above. More than three quarters of the household income in both urban and rural areas are provided by the MSMEs (Rahman 2007). An overwhelming majority—98% of establishments—are micro units having less than 10 workers. Only 13% are in manufacturing and the remaining 87 per cent are involved in trade and services.

In Indonesia, SMEs are recognized as a fundamental asset of the economy. They accounted for more than 99% of total enterprises in 2009, absorbing over 90% of the total workforce. According to the ASEAN, in terms of national output, the contribution of SMEs to GDP creation was more than 55% in 2008/2009. Typically, SMEs in Indonesia are concentrated in the agricultural sector, followed by trade, hotels and restaurants as the second, and manufacturing as the third largest sector, accounting for 52%, 28% and

6.5% respectively. Furthermore, within the manufacturing sector, SMEs are involved mainly in low technology manufacturing industries such as the food and beverage, textile and garment, and wood product industries, while only small numbers of them are involved in high technology industries. SME sector in Indonesia is predominantly domestic-oriented.

3.4.4. SME and Exports in Asian OICs

The lack of adequate data or information about the proportion of exports that SMEs contribute to in each country is remarkably scant, especially for Malaysian and Bangladeshi SMEs. In Indonesia SMEs have a small share of exports. Larger firms dominate the scene in terms of contribution to non-oil and trade. According to the ASEAN, the Indonesian SMEs' non-oil exports accounted for approximately 17% of total national exports in 2009, while exports from the large enterprises comprised 83% of the total export in the same year. Overall, they contribute only 15% to 16% of total national exports, most of which comes from medium enterprises. Another interesting feature of export-oriented SMEs in Indonesia is that the majority of them do not export directly, but rather indirectly through intermediaries like traders, trading houses, and exporting companies (Tambunan, 2007).

3.4.5. Barriers to Economic Growth, SME Development and Exports in Asian OICs

External Barriers

While some progress has been made in improving the investment climate setting, Bangladesh is still ranked low (122nd among 183 countries, down from 118th position a year earlier) in the most recent World Bank Doing Business Survey of 2012. Infrastructure is on top of the list of problems followed closely by registering property, enforcing contracts and accessing finance. Corruption also ranks high, whereas social problems of crime and health do not appear to have the same level of impact.

For a country such as Malaysia certain procedural and foreign competition barriers such as obtaining reliable foreign representation, the identification of foreign business opportunities, limited information on international markets, high levels of competition in, for example, the electronics industry, and lack of access to export distribution channels, hamper the exporting capability of SMEs.

Indonesian SMEs face slightly different problems associated more with external factors. According to the World Bank's Entrepreneurship Survey, access to finance is by far the greatest impediment to investment for Indonesian SMEs. While the lack of financial instruments prevents excess liquidity from being channelled into financing tangible investment, small firms face additional difficulties, including business licensing. The top three set of problems are similar to those of their Malaysian counterparts which we can expect given the similar economies of both countries. However, unlike Malaysian firms, Indonesian SMEs, in common with Bangladeshi ones, also cite social problems of corruption and crime reasonably high on their list of obstacles faced by doing business.

Internal Barriers

The internal barriers that Asian OIC SMEs face are often a product of or related to the external constraints in the business environment.

In Bangladesh, while the small RMG units are contributing to exports, it is difficult to ascertain, in the absence of data, what is accruing to them in terms of revenue and their ability to grow independently. Given the possible difficulty in gathering data at the small unit level it is hard to detect the nature and scope of routine business problems faced by entrepreneurs and owner managers.

Unlike Bangladesh, actual and practical business issues affect Malaysian SMEs more than other factors. The cost of materials and other inputs and rising overhead costs are characteristic of growing economies

and inevitably they feature on top of the list of barriers faced by Malaysian SMEs. Management problems of cash flow and the slowing down of markets are also high on the list of challenges. According to an OIC report innovation and technology adoption together with access to an innovation system are on top of the list of challenges for Malaysian SMEs. These problems go hand in hand with low commercialisation of R&D, a lack of know-how and resources and poor technology updates. Human capital development is relatively low on the list but it is still a problem especially when work force readiness for change and training issues are raised.

3.5. Barriers to SME development and exports in OIC countries: a summary

The following table lists a range of issues affecting the ability of MENA country SMEs. These issues are arranged in four blocks – access to markets, access to technology and innovation; access to finance and other challenges.

Table 3.12: Obstacles Faced by SMEs in the OIC Countries

Access to Markets	Access to Technology and Innovation	Access to Finance	Other Challenges, Obstacles and Problems
• Access to Market • Obtaining reliable foreign representation and maintaining control over foreign middlemen • Identifying foreign business opportunities • Limited information to locate/analyse markets • Inability to contact potential overseas customers • Keen competition in overseas markets • Lack of home government assistance • Offering satisfactory prices to customers • Accessing export distribution channels • Difficulties in enforcing contracts • Lack of knowledge on foreign market requirements • Limited business development services, marketing and branding • Excessive transportation/ insurance costs	• Lack of ICT adoption • Lack of R&D capabilities • Low level of innovation, know-how and modern technology • Poor connection between industry and universities • Low level of knowledge transfer between member countries • Weak patent registration process, ISO standards, certification, and intellectual property rights (IPR) for SMEs • Weak infrastructure of technology business incubation and cluster development centre	• Lack of sustainable microfinance programmes • Insufficient information dissemination and transparency • Lack of knowledge concerning Islamic and conventional financial instruments • Lack of policy and strategy of commercial banks to deal with SMEs • Lack of banking capability to deal with SME peculiarities • Lack of access to the structural financial products (non-traditional financial • products) • Lack of credit guarantee schemes for SMEs • Lack of stock exchange markets for SMEs • Inadequate implementation of coherent fiscal policies for SMEs	• Weak business angels networks • Insufficient SME database • Cumbersome bureaucratic red tape • Lack of transparency in input prices for SMEs • Inadequate legal and regulatory framework for supporting SMEs • Insufficient institutional support • Lack of bankable projects • Limited capacity building and training services available to SMEs • Insufficient public-private partnership • Lack of managerial capabilities and skills • Lack of promotion and awareness programs on the importance of SMEs on the national economy

Source: COMEC (2012)

The contents of this table could easily be replicated to capture the problems faced by SMEs all over the world in one form or another. What distinguishes the problems in one country from another is the scale and depth of the problems and the institutional robustness that is available to help overcome these constraints. The absence of specific data for each country and for SMEs in different sectors makes it difficult to demonstrate the scale and depth and the necessary actions that could or should be taken to address the constraints with a view to making progress. Chapter 5 proposes a framework of study to improve the evidence about SME-specific barriers to export and provide a more solid ground for policy design, implementation and assessment.

CHAPTER 4. SME EXPORT PROMOTION POLICIES IN OIC MEMBER COUNTRIES: HIGHLIGHTS

Boosting competitiveness in international markets and promoting greater participation by SMEs to international trade have become key policy priorities in many OIC member countries. This chapter presents highlights about of SME export promotion policies developed at OIC level and by a sample of OIC member countries. Based on the detailed country-level evidence presented in Chapter 3, it comments on general trends in SME policy strategies, on the role of trade promotion organisations, on programmes and tools adopted.

4.1 Promoting intra-OIC trade: COMCEC Strategy

Over the last years, the trade of OIC countries has continued to grow and intra-OIC trade has been expanding, notwithstanding the global economic and financial crisis and the slowdown in global trade activity. Between 2010 and 2011, the trade of OIC member countries increased by 23.5%, from USD 3.2 trillion to USD 3.9 trillion. This increase is related to both expanded exports and import demand in OIC countries, although the overall balance has improved. In fact, over 2010-2011, export increased by 27.9% whereas import grew by 18.7%. Over the last decade export grew at a significant rate in all the countries analysed for this report. In the case of Uganda and Egypt, for instance, export increased by nearly five times over 2000-2010.

The share of world trade accounted for by OIC countries reached 10.8% in 2011, almost double than 6.1% in 1990. However, there are large disparities within the OIC. Most of the OIC share of world trade is concentrated in a few countries: Malaysia, Saudi Arabia, the UAE, Indonesia, Turkey, Iran, Nigeria, Qatar, Kuwait and Algeria account for 73% of world trade by OIC member states. These are also amongst the countries that have benefited most from higher prices of energy and other commodities (ICDT, 2012).

Intra-OIC trade has also been rising constantly over the last years, reaching a value of USD 687.7 billion in 2011, a 27.6% increase with respect to USD 539 billion in 2010. According to ICDT (2012), this increase reflects regional promotional efforts, the establishment of bilateral and regional trade agreements, the similarity of patterns of consumption and complementarity of economic models, but also, at least in part, the global economic crisis, which has re-oriented some of the trade towards neighbouring countries. At the same time, specific regional events, such as the Arab Spring, had a negative impact on the growth of trade in goods and services for some OIC countries.

As a result of increasing trade opening, trade promotion programmes and commercial integration of OIC economies, the share of OIC intra-trade in the total trade of Member States reached 17.7% in 2011, a progress towards the 20% target for the year 2015, advocated by the Ten Year Programme of Action (TYPO). The TYPO mandated the Standing Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation (COMCEC) to promote measures to expand the scope of intra-OIC trade, and to consider the possibility of establishing a Free Trade Area between the Member States in order to achieve greater economic integration.

Trade is one of the six cooperation areas prioritised by COMCEC, whose Strategy, launched in 2012, identifies the expansion of trade among OIC member countries as a key strategic objective, to be achieved by way of:

i) trade liberalisation, i.e. reducing existing tariffs and eliminating non-tariff barriers;
ii) trade facilitation, i.e. enabling time and cost effective trade transactions;
iii) trade financing, i.e. promoting and strengthening trade financing mechanisms, and;

iv) trade promotion; i.e. enhancing the interaction among the private sectors of OIC member countries and contributing to the development of their export capacities (COMCEC, 2012).

The COMCEC Strategy recognises that increasing SME contribution to the exports of Member States is crucial to further expand OIC-trade and strengthen the competitiveness of OIC economies in global markets. As outlined in Chapter 3, SMEs play a crucial role in Member States' economies, accounting for the majority of enterprises and employment and contributing significantly to social inclusion and poverty reduction. However, they mainly concentrate on local markets and encounter remarkable challenges to exporting and participating to global value chains.

The axes of intervention outlined by COMCEC to ease intra-OIC trade are expected to benefit SMEs in particular. In this regard, the Strategy acknowledges that improvement of general framework conditions needs to be combined with active policies targeting SMEs, to enable them to reap the full benefits from increased OIC commercial integration. In particular, COMCEC highlights that i) the current framework of cooperation does not provide an enabling environment for SMEs to develop and establish trade partnerships and new contacts, and explore new business opportunities in other OIC countries, and; ii) SMEs in Member States often lack the capacity to develop international markets and export strategies. Accordingly, some of the actions mentioned by the Strategy, such as reduction of tariff and non-tariff barriers, simplification and streamlining of trade procedures, or increasing awareness about available support instruments, address general trade obstacles which however hit SMEs disproportionately. In addition, specific actions for SMEs are foreseen under the "trade promotion" axe, recognising that external and internal barriers exist that limit the benefits SMEs may accrue from increased OIC-trade. Increasing awareness of on-going trade projects, enhancing communication among the private sectors representatives and institutions of OIC member states, building online networks for business communities address the lack of information about market opportunities, business partners, export channels and tools that typically limit SMEs' investments in this area; improving SME export strategy and international marketing capacities address the competence and management constraints of small businesses; and developing capacity of Trade Promotion Organisations responds to the need for upgrading the institutional infrastructure in support of SME internationalisation and for improving the quality and accessibility of services for a broad population of SMEs in member states.

4.2 SME export promotion policies in OIC Member Countries

4.2.1 Policy approaches

Promoting export by national businesses has become a policy priority across most OIC countries. All the countries investigated for this report have put in place a trade promotion plan or strategy in recent years, although SMEs have not always had a chapter on their own, which implies that SME-target instruments have not always been explicitly developed. In other cases, export support is rather part of business or SME development plans, which may cover as diverse – though interrelated - areas as taxation, finance, training, innovation and internationalisation. In one case, Egypt, a specific export strategy for SMEs was defined, in 2005, by the Ministry of Finance, within the framework of the "Small and Medium Enterprise Policy Development Projects" (SMEPOL), implemented by the Ministry and the Canadian International Development Agency (Table 4.1).

Table 4.1 Policy approaches to SME export support

Groups		SME export support as a component of		Export Strategy for SMEs
		SME/Business Development Strategy	Trade Promotion Strategy	
Sub-Saharan Africa				
	Burkina Faso	.	✓	.
	Senegal	✓	✓	.
	Uganda	.	✓	.
MENA				
	Egypt	.	✓	✓
	Yemen	✓	✓	.
	Saudi Arabia	✓	✓	.
Asia				
	Bangladesh	.	✓	.
	Indonesia	✓	✓	.
	Malaysia	✓	✓	.

Nevertheless, even in the case of general trade promotion strategies with no explicit SME chapter, generic measures to ease cross-border activities are expected to benefit SMEs indirectly. This is the case, for instance, of measures targeting infrastructures, whose deficiencies significantly increase the operating costs for exporters, or of measures that strengthen the capacity of financial institutions to lend to exporters.

The international experience shows that the improvement in general framework conditions is more likely to benefit SMEs when matched by direct measures to support the supply-side, which is not always the case for the countries examined. The 2008-2012 National Export Strategy (NES) of Uganda provides an illustrative example of a broad export promotion policy aimed at improving, at the same time, business framework conditions, market access, costs of undertaking international activities and supply-side capabilities (Table 4.2). Although the Strategy was designed to foster and support business export activities in general, the types of services offered, including market information, trade finance, skills development, trade promotion and quality management, address barriers typically encountered by SMEs. In addition, some measures aimed specifically at broadening and strengthening the supply side. These included human resources programmes, competence building and management skills development among potential exporters.

Table 4.2 Uganda's National Export Strategy, 2008-2012

TYPE OF MEASURE	OBJECTIVE	MEASURE	TARGET	INITIATIVES	LEAD INSTITUTION	TIMEFRAME	RESOURCES
Direct support of international activity	To provide adequate export support infrastructure	Airport and railways Cargo handling capacity	Rehabilitate 3 aerodromes Railway lines to link Uganda with its immediate neighbours especially Sudan and D.R. Congo Develop Entebbe into a business hub	Offer liberal and attractive terms for use of the city of Entebbe. Feasibility studies for reopening of various railway lines and airfields	Ministry of work	5 years	Bank of Uganda / Donors
Direct support of international activity	Increase and enhance institutional coordination in export development	Capacities of export support institutions	Full staff capacities	Initiate proposals for institutional strengthening as proposed in the DTIS Integrated Framework Report	Ministry of Tourism, Trade and Industry / International Financial Institutions	1 year	Bank of Uganda and Donors
Direct support of international activity	To create an effective national export training infrastructure	Number of institutions that offer hands-on entrepreneurship and export management training.	Export curriculum developed in 2 years An export development centre established by 2012	Baseline survey to identify needs Mobilise Academic Institutions Export Development centre project	UEPB	2 years	Government of Uganda and Donors
Human resource support	To enhance the managerial competitive capability of exporters in the export markets.	Number of exporters that have received export management training.	2000 exporters trained in a year	Identify exporters for training and sensitise them on the importance of enhancing their managerial skills	UEPB	1 year	GOU, Donors and Firms
Human resource support	To improve the technical competences along the production value chain.	Number of exporters that receive technical training	2000 exporters trained in a year	Regularise and together with successful exporters conduct annual practical training programme for exporters	UEPB	2 years	GOU, Donors and Firms
Human resource support	To build entrepreneurial competences among potential and existing exporters.	Growth in number of export sector entrepreneurs	From the present 600 to 1500 by 2009 3% of the total population in recognisable business by 2012	Massive country mentoring programme using successful enterprises.	UEPB	2 years	GOU and Donors
Financial Support	To increase financial institutions lending to exporters.	Number of Institutions and their lending rates	10% and below by 2012	Implement programmes and measures that increase competition in the financial sector	BOU / Commercial Banks	2 years	GOU and Private Sector
Financial Support	To enhance capacity of producers and exporters to formulate tradable finance project proposals.	Number of producers and exporters receiving Business training	1000 a year	Regional workshops/training on business proposal formulation.	Private sector foundation Uganda	3 years	Self-sponsorship, GOU and Donor
Supply of information related to foreign markets	To widely disseminate market information	Number of producers & exporters receiving information	All producers & exporters (potential and actual)	Enter into agreements with information dissemination media (Radios, Newspapers and complimentary portals/websites)	UEPB	1 year	Government of Uganda and Donors

Source: Uganda, Ministry of Tourism, Trade and Industry

On the other hand, several countries include SME export support strategies within the framework of a broader plan to develop the SME sector. In this regard, an illustrative example is Malaysia's SME Master plan (2010-2020), which Malaysian authorities conceive as a "game changer" strategy to accelerate the growth of SMEs and raise their contribution to the economy, to achieve in this way high income nation status by 2020. In particular, the Master plan aims to increase the contribution of SMEs to the country export from 19% (2010) to 25% (2020). For this purpose, a specific measure of the Master plan, the Going for Export programme, targets first time exporters or existing exporters venturing into new products or new markets. The programme provides customised and comprehensive assistance, a step-by-step approach on how to enter new export markets, including linkage to expertise, buyers and trade financing.

In Saudi Arabia, support to SMEs is part of a national development plan, intended to diversify the economic base and reduce reliance on oil exports. Among the objectives of the Ninth Development Plan (2010-2014) is strengthening the role of the private sector through various investment projects (domestic and foreign) and increase the participation of SMEs to the national economy. To this end, the Plan adopts a number of measures in support of SMEs, the most important of which is the removal of administrative, organisational, technical, financial and marketing obstacles they face. Although not explicitly directed at SME export challenges, these measures are expected to improve the participation of SMEs also to the international activity.

4.2.2 Key institutions: the role of Trade Promotion Organisations (TPOs)

Over the last decades, governments in OIC Member States have been active in promoting trade by home businesses, trough newly established dedicated institutions or charging existing governmental bodies with trade promotion functions. Across all countries analysed, one or more governmental agencies exist that are intended to promote trade, often under the authority of the Ministry of Trade or the Ministry of Industry.

As in most OECD countries (see Chapter 2), Trade Promotion Organisations (TPOs) are public entities that function as service providers and catalyst organisations that promote trade and local business participation's in international markets, implementing government trade strategies, but also favouring direct engagement by the private sector. In almost all the countries examined, in fact, public-private partnerships are promoted within the framework of TPOs' activities. This is the case for instance of the Senegalese Association for Exports Promotion (ASEPEX), which was created in 2005 by the Ministry of Trade and is in charge of the implementation of Senegal's Accelerated Growth Strategy (SCA), a framework for public-private partnership, intended to foster competitiveness and export performance in key strategic sectors (Box 4.1).

Box 4.1 Public-private partnerships: Senegal's Accelerated Growth Strategy

Senegal's Accelerated Growth Strategy (SCA) was established in January 2005, as a framework for public-private-partnership, aiming to improve the business enabling environment and at promoting specific sectors or "grappes" as engines of economic growth.

To identify pilot grappes, five key factors were taken into account: the growth potential of the grappe, the ability of the grappe to generate value-added, the ability of the grappe to compete on the international market, the potential for export, and the likelihood that the grappe would create new professional and non-professional jobs.

The five grappes selected by the SCA are:

- Tourism, Cultural Industries, and handicrafts
- Agriculture and Agro-industry
- Information and Communications Technology (ICT) and related services
- Clothing and Textiles
- Fisheries and Aquaculture

The presidency of each grappe is composed of a President chosen from among the private sector representatives of the grappe's industry, a vice-President (a high ranking public official from the main administrative department of the grappe), and one coordinator hired by the SCA. Members of the grappe represent the variety of stakeholders in the industries associated with the grappe, including the public and private sector, civil society, academics, researchers, training institutions, financiers, and consumer associations.

Source: AfDB.

Typically, the main services provided by TPOs include:

- provision of information about overseas markets;
- business consultancy for new exporters or companies that intend to expand their international business;
- networking with potential business partners in foreign markets;
- support in participation to trade fairs and organisation of mission tours to foreign markets;
- seminars and training courses to enhance the managerial ability of exporters and/or mentoring services
- financial support to exporters

Although in most of the surveyed countries, in principle, TPOs are offering services across the above described range, the degree of specialisation of the agencies may vary substantially across countries. In particular, financing services to exporters, in the form of export grants, export credits or export insurance, is sometimes provided by other specialised institutions. This generally depends on the existence of one or more trade promotion institutions in the country and possible specialisation of functions across these institutions.

For instance, within the framework of Uganda's National Export Strategy (see Table 4.1), the Uganda Export Promotion Board (UEPB), the TPO that operates under the Ministry of Tourism, Trade and Industry, focuses largely on technical assistance, training and capacity building, whereas the Bank of Uganda (BOU), commercial banks and private sector foundations are the lead institutions providing financial support to producers and exporters. On the other hand, in Saudi Arabia, two of the main entities engaged with expanding Saudi non-oil exports are especially dedicated to providing financial assistance or include financial incentives among their main tools. The Saudi Export Programme (SEP) of the Saudi Fund for Development (SFD), established in 1999 as the official national export credit agency, aims, *inter alia*, to help exporters overcome difficulties in receiving export proceeds for

commercial reason i.e. an importer's failure to pay, or for political reasons, i.e. the importer's country hindering payment. The Saudi Exports Development Authority (SEDA), provides tax and fiscal incentives to marketing export and attracting foreign investors. The third agency, the Saudi Export Development Centre (SEDC) focuses on consultancy services and supply of information, studies and economic reports to affiliated Saudi export companies.

In Yemen, assistance to exporters is provided by a financial institution, specialised in lending to small enterprises, the Small Enterprise Development Fund (SEDF).This partners with the Small and Micro Enterprise Development unit (SMED), which is the unit of the Social Fund for Development (SFD) – the government institution co-financed by international donors – responsible for promoting the development of the small and micro finance sector in Yemen.

In most of the cases analysed, a specialised agency, different from the trade promotion entities, is in charge of investment promotion. For example, in Indonesia, the main institution for trade promotion is the Directorate General for National Export Development (DGNED), a non-profit government agency. The Investment Coordinating Board (BKPM) is a free-standing government agency, responding directly to the President of the Republic, which oversees enforcement of the laws and regulations affecting both foreign and domestic investment.

In some cases, there exist several TPOs that are not specialised by functions or services, but rather cover different sectors or engage different stakeholders. This is the case of the rather fragmented trade promotion environment in Egypt, where the Egyptian Export Promotion Center (EEPC) is the main governmental export promotion agency, but other institutions exist that provide trade services, including, the Industrial Modernisation Center, the Egyptian Export Councils, the Egyptian Commercial Service, the Egyptian Exporters Association (EEA), a non-profit organisation founded by the Egyptian private sector exporters in 1997. Also in Bangladesh, there exist several organisations promoting trade, including the Export Promotion Bureau (EPB), a semi-autonomous institution under the Ministry of Commerce, the Board of Investment (BOI), under the Prime Minister's Office (PMO), the Bangladesh Export Processing Zone Authority (BEPZA), the official organ of government (under the PMO) to promote, attract and facilitate investment in Export Processing Zones (EPZs), and the Bangladesh Foreign Trade Institute (BFTI), a trade policy thin-tank in public-private partnership, also involved in export promotion.

TPOs across the surveyed countries appear also to have different degrees of responsibilities with regard to policy design and implementation. In Uganda, Senegal and Bangladesh, for instance, the main role of TPOs is to implement a national plan or strategy defined by the Government. In Indonesia and Malaysia TPOs contribute also in defining or reviewing policies. In Malaysia, for instance, among other functions, MATRADE, established in March 1993 as an external trade promotion arm of Malaysia's Ministry of International Trade and Industry (MITI), formulate and implement a national export marketing strategy to promote the export of manufactured and semi-manufactured products, represent Malaysia in any international forum in respect of any matter relating to trade, and advise government on matters affecting or in any way connected with trade.

Relationships with regional associations, international organisations and donors also vary significantly across the surveyed countries. In African and MENA countries, governments and TPOs work closely with aid agencies and international organisations, whereas in Asia cooperation at the regional level is more frequently observed. In Senegal, for instance, several international organisations are involved in SME development and export promotion. The Accelerated Growth Strategy (Box 4.1) is funded by the African Development Bank, through its “Strategy 2010-2015”, which also supports the country’s Enterprise Update Programme. Other donors, including the EU, USAID, GIZ, ECOWAS, take part in the implementation of generic or sectoral SME programmes. In Burkina Faso, the National Export Promotion Strategy, validated in 2009, followed the priorities identified through the Enhanced Integrated Framework (EIF), a multi-donor programme, which supports LDCs to be more active players in the global trading system by helping them tackle supply-side constraints to trade (Box 4.2).

In Yemen, foreign donors are the main source of funding for the Small and Micro Enterprise Development unit (SMED), representing 90% of its financial sources.

Box 4.2 The role of donors: Burkina Faso's National Export Promotion Strategy

Burkina Faso developed its National Export Promotion Strategy in 2009, as a result of its participation to the Enhanced Integrated Framework (EIF), a multi-donor programme set up 1997 at the WTO, and subsequently reviewed in 2005, to support LDCs to address the supply-side constraints which limit their participation in the global trading systems. A key step in the programme is the Diagnostic Integration Study (DTIS), undertaken to identify constraints to competitiveness, supply chain weaknesses and sectors of greatest growth and/or export potential. The DTIS includes an Action Matrix, a list of priority reforms, which is validated by national stakeholders and by the Government.

Burkina Faso joined the IF in 2002. Its DTIS was validated in 2007 and, based on this, a National Export Promotion Strategy was designed in 2009. The priorities identified in the DTIS Action Matrix have mainly been addressed through support received from development partners in sectors including mining, cotton, animal husbandry, various fruits and vegetables and the industrial capacity. Projects addressing cross-cutting issues have also been supported and include SME development and competitiveness. For instance, to encourage the transformation of agricultural products, the DTIS suggested the creation of an agro-industrial park for SMEs.

Source: http://www.enhancedif.org

International trading partners may also play a direct role in supporting SME upgrading and insertion into global value chains. As a case in point, over 2006-2008, as one of Indonesia's major trading partners and one of the main destination markets for Indonesia's non-oil and gas products, the European Union implemented the Trade Support Programme 1 (TSP-1), which also comprised specific measures to improve the capacity of SMEs to enter the EU market in specific sectors, mainly consisting of improvement in framework conditions, such as the country's food safety control system, and orientation programmes for SMEs. The assessment conducted by the OECD and the WTO highlighted the effectiveness of the programme in fostering networks and improving institutional capacity, but also pointed to the difficulties of building up national capacities in highly technical areas, within the short-term horizon of the cooperation programme (Box 4.3).

Box 4.3 Trade cooperation programmes: European Union - Indonesia Trade Support Programme I

In 2006, the European Union initiated the EU-RI Trade Support Programme-1 (TSP-1) aimed to upgrade the technical aspects of the bilateral EU-Indonesia import/export process and facilitate Indonesia's more extensive integration into the international trading system. Two out of four components of the programme also included support measures to SME export. These components had the following objectives and measures:

Component 3. Improve the access of Indonesian companies to services enabling technical conformity data updates and to recognised testing certificates in selected industrial sectors via a select number of Research and Development Institutes.

Measures:

i)Training on EU laboratory management practices.

ii) Training on ISO 17025 and Quality Assurance.

iii) Training on conformity assessment for selected commodities

iv) Twinning programme with EU lab's

v) Dissemination with seminars and workshops

Component 4. Ensure improved access to the EU market for Indonesian companies dealing in frozen

fish and shrimp by improving the official food safety control system.

Measures

i) Training of trainers (review and assessment of lab. capacity and performance, funding for equipment, and training).

ii) Orientation programme for SME's ((workshops and study tour)

iii) Review of relevant regulatory/legal framework.

iv) Dissemination to industry (seminars and workshops)

The assessment conducted by the OECD and the WTO highlighted the following achievements, failures and lessons:

Results Achieved

Component 3:

-Increased capacities and improved operations; more understanding and recognition of problems, ability to become more market-oriented and thus serve the business community.

-Training of young technicians led to the improvement of institutional capacities.

-Laid down a good foundation for future institutional collaboration between the RI centres and EU labs.

-Greater networking between EU labs and RI centres.

Component 4

-Strengthened labs on quality management.

-Created new legal framework and inspection procedures.

-Strengthened the capability of the competent authorities and created quality manager position.

-Purchased and installed equipment for fisheries labs.

-Reduced trade barriers and improved trade flows to EU (short term impact: rapid alerts reduced from 70 in 2004 to 11 in 2010).

-Improved market access, approval for fisheries exports to the EU to increase continually (in 2007: 109 fisheries exporters and in January 2011: 176 fisheries exporters).

Factors for failure

-The initial objectives were too ambitious.

-The duration of the programme (1.5 years to 2.5 years) was not long enough to build up national capacities particularly in highly technical areas.

Lessons Learned

-It takes time to build up trade-related capacities in developing countries, often up to 2-3 years before results can be seen.

-An assessment of trade-related needs should be carefully undertaken and gaps properly identified.

Source: www.oecd.org/aidfortrade/47450410.pdf

4.2.3 Policy measures and tools

In the countries surveyed, SME export promotion strategies, as implemented by TPOs, as well as other public or international institution, address largely the following key challenges, common to current or potential SME exporters: i) Access to markets; ii) Skills development; iii) Access to finance and credit export guarantees; and, though to a lesser degree iv) Clustering and access to technology and innovation

4.2.3.1 Access to markets

Informational barriers represent serious impediments to SME export activities in all countries surveyed and are typically identified by TPOs as the main target for their support programmes. In OIC countries, these informational barriers concern many different aspects of foreign trade, including regulations and standards, custom procedures, foreign business environment and customers, distribution channels and potential business partners, and, also available trade promotion instruments. The information gaps often limit the capacity of SMEs to benefit from opportunities created through multilateral or bilateral negotiations, as well as to seize opportunities that expanding global production networks may bring forward.

The most common tools developed in this area consist in information access points, increasingly also in the form of on-line portals, regular publications of trade statistics, generic market information or reports on specific markets, as well as workshops and seminars that may be targeted for a selected group of enterprises. Access to market is also promoted through matching services, whereby potential foreign partners are identified and linkages with local businesses created. In Malaysia, MATRADE is often the first reference point for enquiries and visits by foreign importers. The agency's role is then to match them with compatible local partners who can offer the products and services they seek.

In this area, beside TPOs, an important role for diffusing information and increasing awareness by entrepreneurs is generally played by Business Associations and Chambers of Commerce. Indeed, the lack or weakness of this business institutional fabric has been recognised in some of the countries analysed as an additional obstacle to reach out to SMEs with information and other support programmes.

In some countries, efforts have been made to develop a market for trade assistance services, to favour the development of professional services in this area, which may enrich the local business eco-system. Malaysia’s Going Export (GoEx) programme provides an example in this regard. It aims to address challenges faced by SMEs on new market entry overseas due to the high upfront costs and lack of detailed knowledge about the new markets and competitors. Through a structured planning and technical advisory, the programme facilitates SMEs to access detailed information on the targeted markets, including information on: buyers; competitors; pricing; logistics; supply chain; consumer preference, regulations, legislation. Over time, however, the programme aims to build a pool of experts who can help provide value-added services which are crucial to ensure the success in exports (Box 4.4).

In Yemen, the Small Micro Enterprise Promotion Services (SMEPS) considers consultants and providers of business development services as key strategic partners for the business and technical development of SMEs. For this purpose, SMEPS has created a database of Yemeni consultants based in the cities of Sana’a, Aden, Taiz and Mukalla. The database has been uploaded into a strongly promoted directory based website. Promoting the database may encourage SMEs (with partial financing through SMEPS programmes) to avail themselves of professional consultancy services to improve their businesses. The website will also produce regularly business reports and business consultancy papers.

Box 4.4 Going Export (GoEx) programme, Malaysia

Malaysia's Going Export (GoEx) programme is part of the Small Medium Enterprises (SME) Master Plan 2012-2020, intended to drive SMEs to the next level of growth through higher productivity and innovation. Go Ex will build on existing initiatives to provide end-to-end export facilitation through structured planning and technical advisory. The programme aims to build over time a pool of practitioner experts who can help provide value-added services for exporters.

The Programme will be in the form of a matching grant to assist export-ready SMEs to venture abroad. The grant will finance the development and execution of an export sales plan (ESP) that is co-created with the help of practitioner experts. The matching grant on a reimbursement basis is only provided when the SME is at the last steps on the ESP. This will ensure only genuine SMEs that are serious to export will participate in the programme.

The assistance will include:

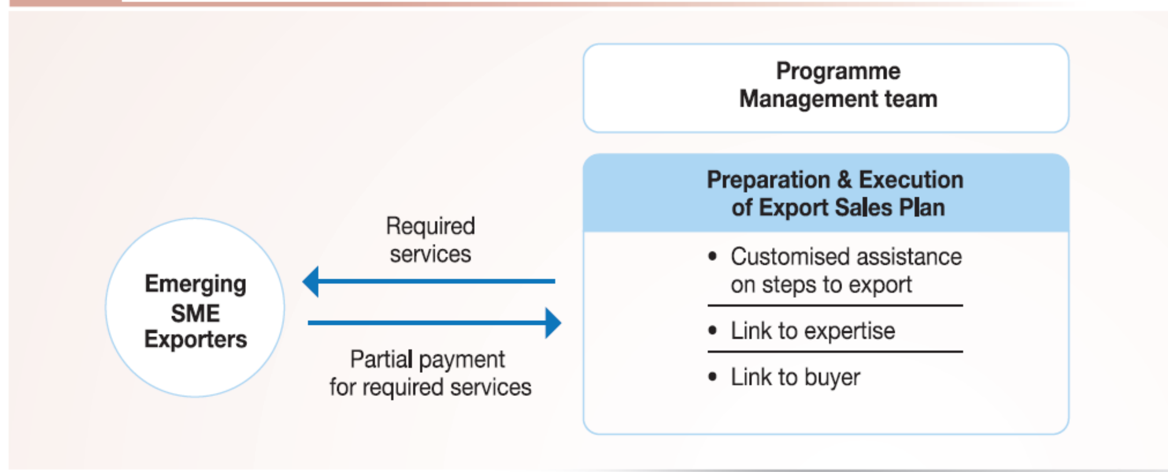
• Customised assistance on steps to export provided by practitioner experts;

• Facilitate access to market intelligence on details on the targeted market by linking to experts;

• Link exporters with potential overseas forums and customers; and

• Advisory to identify quality requirements and alignment with any Mutual Recognition

This Programme will be temporary, until such time when a pool of capable local private service providers or practitioner experts is developed. The Government will gradually phase out the financing aspect while maintaining the soft-support aspect, making this an exemplary of public-private partnership model. The programme is also expected to increase the number of SME exporters in the country and to raise their contribution of total exports from 19% currently to 25% by 2020 (APEC average: 30% of exports).



Source: Ministry of International Trade and Industry, Malaysia.

4.2.3.2 Skills development

Access to information may not by itself translate into real commercial opportunities, if entrepreneurs and SME managers lack the capacity to elaborate this information strategically, build on it to develop competitive products or services and elaborate sustainable export business strategies.

Training courses are most commonly developed to support skills development in SMEs. In Uganda, as part of the National Export Strategy (see Table 4.1), Uganda Export Promotion Board (UEPB) has been charged with the role of identifying exporters for training and sensitise them on the importance of enhancing their managerial skills. In Egypt, the Foreign Trade Training Centre (FTTC) provides a set of integrated certified courses to improve exporters' skills for navigating the foreign business environment and develop consistent export business strategies (Box 4.5). In Yemen, the Handicraft Export Promotion Program (HEPP) targets Yemen's poorest communities by working through producer associations to assist entrepreneurs in developing traditional Yemeni handicrafts of the highest quality. Such handicrafts include leather goods, pottery, and traditional Yemeni straw-made goods. Through a mix of interventions, SMEPS has also been working on linking these associations to higher value and higher volume markets. Trial quantities of Yemeni handicrafts have been exported to the US and Europe.

Box 4.5 Training for exporting: Trade Information Analysis by the Foreign Trade Training Centre, Egypt

The Foreign Trade Training Center is a non-profit autonomous training institute under the auspices of the Ministry of Trade and Industry (MTI), which strives to empower exporters' skills, enhancing their knowledge and driving forward their approach towards competitiveness, using a set of integrated certified courses. To this end, the Center proposes various courses to SMEs. The Trade Information Analysis is a specific course, targeted for export and marketing managers, to help them address the international trade environment, select promising markets and identify exports opportunities.

The training deals with :

- Export Marketing Research
- Desk & Field Research
- Using Internet as an Effective source of Information
- Field Research
- Analysing & interpretation of data
- Trade Map Database
- Country& Product Map
- Market Access Map

The length of the courses is 5 hours per day, for 10 days. The training takes place in the premises of the FTTC and provided by Professional Egyptian trainers with practical experience of international firm and foreign experts from international foreign trade institutes and organisations.

4.2.3.3 Access to finance and credit export guarantees

Access to finance is rated amongst the main obstacles to investment and international activity by SMEs across developed and developing countries. The countries surveyed for this report are no exception in this regard. Indeed, access to finance is one of the areas in which most trade promotion programmes focus, although, as mentioned above, specialised financial institutions rather than TPOs, are often in charge of their implementation. This is the case of the Saudi Export Programme (SEP), which provides guarantees and insurance facilities to mitigate risks associated with international trade transactions (Box 4.6).

Box 4.6 Financing of Services and Turn-Key Contracts, Saudi Export Programme

The Saudi Export Program (SEP) was established in 1999 within The Saudi Fund for Development, to promote the export sector in Saudi Arabia and assist in diversifying the national economic base. SEP aims to assist the national industry and Saudi exporters by providing them with funding and guarantee/insurance facilities and mitigate risks associated with international trade transactions

The programme Financing of Services and Turn-Key Contracts specifically seeks to encourage specialised Saudi companies that have experience in rendering services and executing projects outside the KSA. The participation of SEP in these projects is according to the following:

- Transactions (projects) in which the value of Saudi components (goods /services of Saudi origin) equal less than 50% of the total cost of the transaction (project): the participation of SEP in the financing of such projects may reach 100% of the value of the Saudi components.
- Transactions (projects) in which the value of Saudi components (goods/services of Saudi origin) equal 50% or more of the total cost of the transaction (project): the anticipation of SEP in the financing of such projects may reach 85% of the total value of the transaction.
- The export or construction contract (either direct, or as a subcontract) shall be concluded with a Saudi firm. In case there is a joint venture between a Saudi firm and a foreign partner in the execution of a contract, the share of the Saudi firm in the joint venture agreement shall not be less than 70%.

Export Credit Agencies operate in most of the countries surveyed. For instance, Egypt's Export Credit Guarantee Company (ECGE), whose main shareholder is the Export Development Bank of Egypt, provides a broad range of services to exporters, including credit insurance, factoring, buyers information reports, and export debt recovery. At a transnational level, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), an affiliate of the Islamic Development Bank, provides reinsurance facilities to Export Credit Agencies in OIC Member States.

In Malaysia, to promote trade and contribute to develop non-traditional markets, Bank Negara Malaysia has been establishing Bilateral Payments Arrangements with other countries, also intended to foster closer economic and banking relationships between Malaysia and the participating countries (Box 4.7)

Box 4.7 Bilateral Payments Arrangements (BPA), Malaysia External Trade Development Cooperation

The main objectives of a Bilateral Payments Arrangement is to promote trade and to foster closer economic and banking relationships between the participating countries. Bank Negara Malaysia signs two types of BPA with Malaysia's trading partners:

1) Iranian Model: Central banks are not involved in the settlement of financial claims arising from trade. The central banks guarantee to pay the respective foreign exporter for the export value in the event of default by the importer in their country. Five participating countries: Bosnia Herzegovina, Botswana, Iran, Fiji, Mozambique.

2) ALADI Model: For exports, central banks pay their exporters for the export value in domestic currency through designated banks. For imports, central banks receive the import value in domestic currency from their importers through designated banks. The central banks will settle the net amount due in an agreed currency on a periodic basis. Eighteen participating countries: Albania, Algeria, Argentina, Chile, Indonesia, Kyrgyz Republic, Laos, Mexico, Peru, Philippines, Romania, Seychelles, Thailand, Tunisia, Turkmenistan, Venezuela, Vietnam, Zimbabwe.

Exporters can apply for this facility from all Malaysian domestic banks.

4.2.3.4 Clustering and access to technology and innovation

A low level of innovation, know-how and modern technology represents a major obstacle for the entry into competitive international markets by SMEs. In some countries, information on technologies and R&D partners is provided by TPOs to current and potential exporters. More direct actions to sustain R&D or technology adoption are implemented in some cases. Grants and tax incentives are common tool used to support purchase of equipment and new technologies.

In a few cases, particularly in the Asian countries analysed, a more comprehensive approach is implemented, to foster innovation-oriented linkages, through clustering or technology and business incubators. This generally requires well-established institutions, including on the private sector side, as well as a critical mass of SMEs and other support entities. New firms and SMEs do not innovate alone but rather in collaboration with others, including with their suppliers and customers, and with universities and research organisations. Collaboration is an important element in the strategies of innovative SMEs to overcome some of the barriers they face, including limited funding and the lack of management resources, technological competences, and adequate time horizons to invest in a long-term strategy (OECD, 2010).

Local business linkages and networks are therefore critical to new and small firm innovation. Worldwide, successful examples of SME clusters have proved the importance of local linkages and a conducive local business environment for SME competitiveness in global trade. The international experience shows that SMEs can be importantly motivated by factors within their external environment, including peer networks, supply chain links and social ties, which are typically developed at the local level. In this regard, SME clusters and export consortia may represent important enablers for small businesses, facilitating their linkage with regional and global value chains. Importantly, clusters can ease SME access to information and knowledge about foreign market opportunities and exporting strategies, and facilitate collaborative technology development.

In a few of the countries surveyed, a clustering approach has been used to foster SME competitiveness and internationalisation. This is the case of Malaysia's Multimedia Super Corridor (MSC), a Special Economic Zone launched in 1996, with the purpose to develop a hub for innovative producers and users of multimedia technologies. In Indonesia, the government has promoted the development of Business Development Services (BDS) that address needs of SMEs in selected clusters. Under this programme, each BDS provider enters into a three-year contractual partnership with the government, to serve one or more clusters. In exchange, the government provides start-up capital, which the provider will pay back by servicing the cluster firms.

CHAPTER 5. CONCLUSIONS AND POLICY CONSIDERATIONS

5.1 Intra-OIC trade and SMEs

Over the last years, the trade of OIC countries has continued to grow and intra-OIC trade has been expanding, notwithstanding the slowdown in global trade activity. Indeed, the positive trend in intra-OIC trade that had started at the beginning of the last decade continued throughout the global crisis, also, at least in part, as a result of some reorientation of trade induced by the crisis itself. At the same time, growing local markets have been playing an important role in favouring commercial integration. For instance, in the case of Sub-Saharan Africa, exports to advanced economies had increased over 2010- 2011 but decreased in 2012. This decrease was, however, compensated by a 35% an increase in exports to emerging and developing economies, predominantly to Asia (41%) and to a lesser extent to the MENA countries (39%) and Europe (17%).

The growth in intra-OIC trade is one relevant dimension of the overall increased role of OIC Member Countries in world trade. Between 2010 and 2011, the trade of OIC member countries increased by 23.5%, from USD 3.2 trillion to USD 3.9 trillion. This increase is related to both expanded exports and import demand in OIC countries, although the overall balance has improved. In fact, over 2010-2011, export increased by 27.9% whereas import grew by 18.7%. Over the last decade export grew at a significant rate in all the countries analysed for this report. In the case of Uganda and Egypt, for instance, export increased by nearly five times over 2000-2010.

Governments in OIC Member States have been actively promoting trade by home businesses and, increasingly, participation by SMEs to international activity. The proportion of intra-regional trade to GDP has been rising sharply in the past decade, due to improved regional infrastructure, effective implementation of free trade agreements, lesser use of origin rules and reduced non-tariff barriers.

However, with respect to international trade, SMEs still represent a minor share of exports and face barriers to entry into international markets, which reduce the capacity of OIC economies to reap the full benefits from globalisation. Trade Promotion Organisations represent an instrument of choice to support SME export in the countries surveyed for this study, although TPOs' role, responsibilities and tools may vary significantly across countries, reflecting specific institutional frameworks, economic conditions and SME development challenges. It is however to be noticed that, across countries at different stages of development, the absence of detailed levels of information on SMEs is a major barrier to their place and growth in terms of business in general and exports in particular.

5.2 Barriers to SME development and exports

i) Sub-Saharan Africa

SMEs account for 90% all private sector business in Sub-Saharan countries, but they do not appear to be key drivers of employment dynamics, nor to participate significantly in international trade. On average, SSA countries score poorly in terms of business enabling environment. Many of the constraints that SMEs face in their domestic activities have a direct bearing on their capacity to be successful exporters. These barriers are mostly external, outside the control of SMEs, and include tariff rate quotas and export taxes, as well as domestic price regulations and infrastructure deficiencies. Electricity and access to finance are the tow highest ranked adverse factors affecting businesses in SSA. Uncertainty in business environment is often tied up with labour marker rigidities and the absence of skilled labour, outdated technologies, corruption and high business operating costs.

ii) MENA

SMEs in MENA countries have experienced a rapid growth since 2005: by 2011 the number of start-ups had increased by 8, compared to 2005 levels. However, there is a "missing middle" (existing SMEs), which still struggles to obtain financing in order to expand their business. SMEs in MENA countries are characterised by a large structural diversity. In this regard, three main groups of countries can be identified: oil importers, oil exporters and countries bucking the trend. The main barrier oil importer countries face in international trade is low competitiveness, especially related to human capital and openness to trade. Oil exporter countries rely on oil for fiscal and foreign exchange revenues, which however also suggests vulnerability to changes in the prices in this commodity market. Amongst these countries, Saudi Arabia has made improvements in its budgetary institutions, trying to reduce the connection between oil price and the level of fiscal spending, with the objective of diversifying the economy, including by fostering SME exporting activity. The dependency on the oil and gas industry continues to restrict the possible development of SMEs, in that the latter do not form part of the key producer stakeholder group of businesses involved in the sector. Yemen has also tried to diversify its exports through a reform programme. SMEs account for 96% of GDP and constitute one of the main focus of policy action. In Yemen, SMEs are severely constrained by lack of information, low levels of skills and poor marketing facilities. In countries that are bucking the trends, such as Egypt, a leading negotiator in the Doha Round of the WTO, SMEs still account for a minor share of exports, largely constrained by lack of adequate human capital and 'soft infrastructures'. Nevertheless, a diversification trends has been observed over the last years and the recent spurt of growth in ICT might help Egyptian SMEs to engage in ICT-driven global production networks.

iii) Asia

Asian OIC countries have experienced high growth rates over the last decade, and have had considerable influence on trade in the region and across the world. In Malaysia and Indonesia, SMEs' participation in trade has been favoured by specific policies directed towards: reducing red tape, easing credit flows and offering a range of support services (in training and access to information). Bangladesh has also made important strides during the last decade. While Malaysia and Indonesia have sought economic diversification through high levels of investment in technology and skills, along with FDI, Bangladesh's exports remain highly concentrated both in terms of products and destinations, with readymade-garment exports to the EU and the US being the current mainstay. In Bangladesh, important barriers to SME exports include access to financing and poor infrastructure. These are common problems across the region, but some differences can be noticed and related to the stage of export development and markets. In Malaysia, for instance, SME exporters especially perceive certain procedural and foreign competition barriers, such as obtaining reliable foreign representation, accessing distribution channels, identifying foreign business opportunities, accessing information on international markets and facing high levels of competition in key industries. Also, access to innovation and technology represents a key obstacle for competing effectively in international markets. Similar barriers are faced by SMEs in Indonesia, which however also rank high such as access to finance and social problems.

5.3 Policy Recommendations

The wide variety of economies, the structural diversity within specific regions, the nature and scope of industries in each of the countries challenge assumptions about universal policy development and instruments. The commonalities that do prevail tend to centre around excessive dependency on one or two sectors of the economy, namely commodities. The other set of common elements are essentially negative features of low skills levels, poor infrastructure, uncertain business environment, inadequate access to finance and other support structures and an excessive reliance on the public sector. Where there is growth in the new added value industries of services or new technology based sectors, the Asian OICs dominate the scene. In other regions where attempts have been made to attract or grow

such industries, these have bucked the trend. The more positive outcome is in the interdependencies between OIC countries as manifest in the growing intra-OIC trade, helping larger volumes of South-South business activity and a reduction of dependency on European and North American buyers.

The axes of intervention outlined by COMCEC to ease intra-OIC trade are expected to benefit SMEs in particular. In this regard, the Strategy acknowledges that improvement of general framework conditions needs to be combined with active policies targeting SMEs, to enable them to reap the full benefits from increased OIC commercial integration. In particular, COMCEC highlights that i) the current framework of cooperation does not provide an enabling environment for SMEs to develop and establish trade partnerships and new contacts, and explore new business opportunities in other OIC countries, and; ii) SMEs in Member States often lack the capacity to develop international markets and export strategies. Accordingly, some of the actions mentioned by the Strategy, such as reduction of tariff and non-tariff barriers, simplification and streamlining of trade procedures, or increasing awareness about available support instruments, address general trade obstacles which however hit SMEs disproportionately. In addition, specific actions for SMEs are foreseen under the "trade promotion" axe, recognising that external and internal barriers exist that limit the benefits SMEs may accrue from increased OIC-trade. Increasing awareness of on-going trade projects, enhancing communication among the private sectors representatives and institutions of OIC member states, building online networks for business communities address the lack of information about market opportunities, business partners, export channels and tools that typically limit SMEs' investments in this area; improving SME export strategy and international marketing capacities address the competence and management constraints of small businesses; and developing capacity of Trade Promotion Organisations responds to the need for upgrading the institutional infrastructure in support of SME internationalisation and for improving the quality and accessibility of services for a broad population of SMEs in member states.

In recommending policy development, strands of action could be promoted:

Strand 1: Greater emphasis on intra-OIC trade activities through the development of multilateral agreements or possible free trade zone agreements. The best export growth prospects lie in these kind of agreements, although their implementation may present with significant difficulties. Supportive instruments should be developed to increase exchange and interdependencies, in view of greater commercial integration. In this respect, intra-OIC trade could be enhanced by the development of specific instruments concentrating on the development of a common platform of technologies, information sources, and skills development focusing on those sectors where interdependency works.

Strand 2: Institutional focus on developing soft infrastructure of skills development and of entrepreneurship. This action should foster local business and development, which following the Uppsala model of incremental international business activity, i.e. firms gradually intensifying their activities in international markets, could lead to firms being better able to operate in the exports market. This means that there should be an emphasis on scaling up and improving the capabilities of firms to operate efficiently at the local level through the adoption of new technologies, new skills and better market orientation within their countries and at the intra-OIC level. Such an approach could help firms increase their earnings potential, generate a solid revenue and capital bases (with retained earnings) and enhance their capital leveraging capabilities for external financing.

Strand 3: Strengthening and development of an exclusive front on new technologies, especially those with low entry threshold prospects such as the internet and mobile telephony which should enable greater access to global information sources and interaction. SMEs would be the main beneficiaries of trade facilitation through new technologies that reduce the costs of accessing information and transacting, which hit them disproportionately. This would necessitate changes in the physical infrastructure to allow for the location of, for example, remote servers. It will also necessitate the opening up of the 'information world' and access to global sources of information.

Strand 4: Strengthening of the physical infrastructure (energy and transports) which prevents SMEs to operate efficiently and access international markets at competitive costs.

Strand 5: Promotion of public-private partnerships, to integrate demand-side perspectives in trade promotion policies and programmes, empower the SME sector and, combined with the continuation of fiscal discipline, wean the economies out of their excessive reliance on the public sector.

Strand 6: Activation of the developmental role of SMEs through the improvement of general business framework conditions for exporting and active policies to address key obstacles to SME export and bottlenecks to supply-side development. The thorough identification of these obstacles and their continuous monitoring represent crucial steps in the process of policy design, implementation and assessment.

Strand 7: Improving the coordination of SME policies across the various agencies and organisations involved, including TPOs. Fragmentation of the institutional setting and lack of coordination generate redundancy and reduce the capacity of SMEs to identify and access appropriate services. A coordination body for SME policies should be identified and generic services should be provided by one-stop-shops, which limit search costs by SMEs.

Strand 8: Strengthen the capacity of TPOs to differentiate services and segment target SMEs. Generic information services can be conceived for a large population of firms, but more added-value ones, such as matching services and, especially, training and innovation-related support, require differentiation by needs and objectives. In this regard, TPOs need to act as brokers and gatekeepers within a broader network of institutions and specialised service providers.

Strand 9: Development of a data infrastructure, to monitor business dynamics and performance by size of firms. Lack of hard data on SME export represents a major barrier to trade promotion and policy assessment, as well as to intra-OIC cooperation to boost SME participation in global and regional trade. At its basic level this means a concerted effort to establish a robust data collection mechanism and a R&D framework, possibly in partnership with local universities and research centres, as well as in collaboration with international institutions, such as the OECD, which have an established methodology for evidence-based policy making. Data collection needs to be carried out at both the micro level of firms and at the macro level of the economy. There seems to be much of the latter in place already but there is a significant deficit in terms of data availability at the level of the firm. As part of this development careful attention should be given to the adoption and creation of appropriate metrics for monitoring and evaluating the dynamics of performance of businesses and the wider economy.

Finally, we recommend that care be taken to avoid the adoption of a 'one size' policy mechanism across all countries. Although all countries benefit from hard and soft infrastructure development and diversity, it may not be possible to introduce changes on all fronts at the same time. Countries need to make particular adjustments and changes according to the stages of their development and also with regard to the real and perceived needs of its people, its firms and its capacity to absorb and deliver on those changes. We, therefore, suggest the following differentiated export promotion models for low, middle and high income countries:

a) For LICS: we recommend a strong emphasis on the skills development of its people centred round a small selection of key industries that have the best export potential and which are less reliant on commodity price fluctuations. The early adoption of 'low threshold' technologies such as mobile phones (as developed successfully in Bangladesh) could also be of value so that these countries can potentially leapfrog stages of economic development. Where feasible models of frugal innovation to develop products and services should be scaled up with the help of donor agencies with a view to the possible delivery of products that can also be available as exports to other countries;

b) For MICs we recommend a strong focus on soft infrastructure development which can enable people and firms ready to adopt new ideas and technologies to enhance existing industries where there is export potential. Entrepreneurship development which allows new small firms to engage directly in intra-OIC trade activity could be of immediate interest;
c) For HICs, the export orientation could be on the development of hard infrastructure and greater flexibility in the employment market to allow for strategic FDI. This could enable the setting up of regional ecosystems and global production networks that could connect HICS to both MICs and LICs.

5.4 Evaluation of SMEexport-support policies: a framework for further study

In OIC member countries, assessment evidence on trade promotion policies, and SME export promotion policies in particular, is rather scarce. The evaluation of SME policies encounters important limitations in the lack of hard data on SME population, dynamics and performance, and in the lack of comprehensive information on institutions and programmes supporting SME development and export.

To promote SME participation in foreign markets, it is essential for policy makers to have a comprehensive view of SME characteristics, their business environment, their strength and weaknesses when approaching international markets. Effective SME export promotion policies demand that policy makers identify the specific barriers that SMEs encounter when planning international business and operating in foreign markets. Furthermore, as the number of institutions and organisations dealing with SME development and/or trade promotion increase, at international, national and local level, their monitoring and assessment become an essential part of the policy making process. In order to identify good practices and areas for improvement, there is an urgent need for more in-depth evaluation of their effectiveness in addressing the obstacles encountered by SMEs and increasing their participation to regional and global markets in a sustainable way.

Following the established OECD methodology to monitor and assess SME policies (OECD 2008, 2013), it is suggested that a rigorous evaluation of SME export support policies is conducted in OIC Member Countries. This policy evaluation should include the following steps:

- A questionnaire survey of OIC Member States' trade promotion and SME support agencies, designed to:
    i. Gather a list of central government-funded programmes designed to enable firms, and SMEs in particular, to overcome (either specifically or explicitly amongst other objectives) barriers to selling/trading goods or services to markets outside of their own economy. Where an economy considers that a regional, state or local programme – either public or private sector funded – significantly contributes to reducing barriers to SMEs internationalising, then information on that programme should also be provided.
    ii. Obtain from each member economy a description of the wider context in which its programmes geared to SMEs wishing to internationalise, should be understood;
    iii. Gather details of the parameters of the schemes, funds available, delivery mechanisms, types of assistance, direct or external delivery, charging, targeting and, where possible, data on the uptake of the programme by SMEs;
    iv. Obtain a description of the barriers facing firms (and especially SMEs) that the programme is designed to enable them to overcome and how it is expected to do that; and
    v. Gather from each member economy, outcomes of programme evaluations in terms of demonstrated benefits, and, if possible, evidence of how SMEs in particular have been helped by the programme.

- A questionnaire survey of a carefully selected sample of SMEs in OIC Member States. This may include both current and potential exporters. The survey would intend to:

i. Capture SMEs' perceptions of the most significant barriers to exporting/internationalising. For the purpose of comparative analysis, the survey would list a number of known barriers and invites SMEs either to rank the barriers according to their perception of *which are the most or least significant factors* they face in internationalisation, or seek their views using a Likert scale (i.e. *'extremely significant, very significant, significant, somewhat significant, not significant'*) to obtain their response.
ii. SMEs' awareness, participation and assessment of government programmes aimed at enabling SMEs to overcome barriers to exporting/internationalising.
iii. SMEs' participation in other (non-government) programmes intended to support their internationalisation.

- In-depth case studies of SME export support programmes, combining quantitative and qualitative elements, to identify factors of success or failure and challenges to their improvement and/or expansion.
- Interviews to specialists and scholars in OIC Member States.

The in-depth evaluation would allow to follow up on the broad areas for policy action identified in this report and develop detailed country-level recommendations. These latter would need to take into account the specific national business environment, institutional framework and governance mechanisms, in order to identify the concrete measures to achieve the objectives indicated in section 5.1 and the most appropriate policy delivery mechanisms.

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