

# SEMINAR-WORKSHOP ON INTERNATIONALIZATION OF SMES

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# Public policies for the promotion of exports and national experiences for the internationalization of small and medium-sized enterprises

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# Public policy - definition

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## *Definition*

In any society, governmental entities enact laws, make policies, and allocate resources. This is true at all levels. Public policy can be generally defined as a system of laws, regulatory measures, courses of action, and funding priorities concerning a given topic promulgated by a governmental entity or its representatives.

## Definition – cont'd

- - refers to the actions of government and the intentions that determine those actions
- - is whatever governments choose to do or not to do (Thomas Dye)
- - “a set of inter-related decisions taken by a political actor or group of actors concerning the selection of goals and the means of achieving them within a specified situation where those decisions should, in principle, be within the power of those actors to achieve” (Jenkins, 1978)

## STRONG LEGAL AND POLICY FRAMEWORK NECESSARY FOR SMEs

- The then Minister of Tourism, Industry and Commerce of Guyana, the Honourable Manniram Prashad in delivering the feature address at the opening session of the **“Second Roundtable on the Strategic Plan and Coordination Mechanisms for Small and Medium Enterprise”** at the Headquarters of the CARICOM Secretariat on Tuesday 24 October 2006 said
- “If Small and Medium Enterprises (SMES) are to be fully developed, countries must put in place the Legal and Policy Framework to ensure that the full potential of the sector is realised.”

# STRONG LEGAL AND POLICY FRAMEWORK NECESSARY FOR SMEs

- The Minister said without the correct legal and policy framework not much could be done to push SMEs forward to enable the sector to develop to the point where it could compete in the global economy.
- Guyana passed the Small Business Act in 2004, noting that the requisite legal framework was necessary for the operation of SMEs, as “regulations for big business should not be applied to SMEs”..

# STRONG LEGAL AND POLICY FRAMEWORK NECESSARY FOR SMEs, cont'd

- “...without the Legal and Policy Framework not much can be accomplished in moving the SME sector forward. The above named framework must first be put in place.
- With the required framework established, it is incumbent on us also,
  - to listen to the concern of the SMEs,
  - identify the obstacles they face and provide them with the required tools for them to grow,
  - develop and to compete in an increasing global economy,”

# STRONG LEGAL AND POLICY FRAMEWORK NECESSARY FOR SMEs

- 'It is critical in your deliberations, in the finalisation of a strategic plan for SMEs, to consider the design of appropriate regulations and procedures.
- Consideration must first be given to what impact present regulation and procedures are having on the growth of small businesses, with a view to making necessary changes if need be.
- Regulations must facilitate the activities of SMEs, rather than hinder them. The regulations and procedures used to register large business should not apply to SMEs"



# Challenges

- At SELA's Export Consortium Meeting in Mexico City 2015 it was determined is that "one of the basic problems of the SMEs of the region is the lack of a product exporting culture".
- Reasons given included
  - "a lack of an exporting vocation or
  - a lack of knowledge of how to access foreign markets".

# Challenges

- high energy costs
- limited access to capital
- non-compliance with international standards
- limited market contacts in export markets of interest
- Inadequate intra-regional transportation
- Inadequate storage and packing facilities

# Solutions

- To deal with the SMEs should
  - introduce criteria that generate international business,
  - Using an integrated approach, formulate long-term strategies for the search of new markets, with trained personnel at all levels
  - have well-defined objectives and establish different ways of sector links.

## Solutions

According to Sir Ronald Sanders, a Consultant, a Senior Fellow at London University and former Caribbean Ambassador and trade negotiator at the World Trade Organisation, implementing the Caribbean Single market should be implemented to expand trade in the Caribbean region. This would involve

- removing all restrictions on the movement of goods, services and capital
- the right of establishment by nationals and companies across all CARICOM countries.

## Solutions

Sir Roland suggested having well-organised meeting of Caribbean entrepreneurs, the Caribbean Development Bank, national development banks and visionary commercial banks

- with high-level government representatives to ascertain the opportunities that exist for greater inter-regional and global trade.

# Solutions

This meeting will also facilitate the creation of single Caribbean-owned companies that

- could operate across borders to produce products that could be traded competitively
- and to identify where the capital could be raised to finance these operations through joint private sector-government backing.

## Examples: Guyana and Suriname

In 2012 CARICOM businesses/firms exported over US\$705 million in sales to Brazil, of which Trinidad and Tobago accounted for over 98% of export sales.

Guyana and Suriname utilized Partial Scope Agreements (PSAs) trade contracts to boost trade with Brazil.

PSAs provided:

- Limited duty free or
- Reduced duty treatment on a specific list of products

## Examples: Guyana and Suriname

CARICOM's top 10 products are not covered by the PSAs between Brazil and Guyana and Suriname respectively.

PSAs do not cover most of Guyana and Suriname's most competitive exports

Guyana and Suriname are not adequately exploiting their trade opportunities with Brazil - the PSAs between Brazil and these countries leave a lot to be desired

- POINT TO PONDER: The trade deficit between Brazil and CARICOM went from US \$377million in 2001 to US \$1.7 billion in 2012.



## Examples: Guyana and Suriname

Caribbean Export's analysis of the reasons for the poor market penetration in Brazil included

- poor transport logistics;
- poorly implemented trade agreements between Brazil, Guyana and Suriname;
- estranged trade support agencies;
- peripheral political importance by Heads of Government; and
- sluggish intra-CARICOM merchandise trade.

## Grenada

In June 2015, the Grenada National Export Strategy Review and Strategic Options for Export Development Project published its “Strategic Options Paper for Export Development”.

At a validation workshop held on May 29, 2015, stakeholders determined that the following sectors are the appropriate choices to move the export economy forward:

- Tourism services
- Creative Services
- The Ocean Economy
- Agricultural products
- Transport

## Grenada, cont'd

### Challenges facing exporters

- Limited institutional capacity to support export development
- Constraints in access to appropriate finance
- Low customer knowledge and knowledge of market requirements
- Weak or non-functioning private sector associations
- Low levels of interest in collaboration between producers
- Low levels of integration with regional and global supply chains
- Relatively low levels of export orientation
- Generally there is greater focus on short -term market promotion as opposed to longer term relationship building and strategic market development
- Relatively low levels of skills in the service sector, labour supply issues in manufacturing and agriculture
- Low production capacities and potential for economies of scale
- High costs of inputs

## Grenada, cont'd

- Relatively high energy costs
- Relatively high production and transaction costs
- Inadequate and unreliable transport infrastructure (air and sea)
- Lack of and/or poor branding of products and services
- Low levels of creativity and innovation and limited research and development
- Low levels of entrepreneurship
- Low productivity and inadequate knowledge of manufacturing and farming practice, technical know-how and branding practices
- Lack of diversification in the export patterns
- Limited added value of the goods produced
- Difficulties in complying with international standards i.e. standards, packaging and labelling

## Grenada, cont'd

“There is no explicit export policy document, which outlines specific sectors for exports with the necessary incentives to stimulate production in these sectors.

As a result there is not much focus on exportable products and proper market studies have not developed at the time of making the investment decision. ”

Kwesi Roberts, Business Development Specialist,  
Grenada

## The problem with policy

According to the Caribbean Development Bank's 2016 report ***Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier***:

“MSME Entrepreneurial development is not a major regional policy focus.”

“The Ministers of Trade, Industry and Commerce in Antigua and Barbuda, Barbados and St. Lucia indicated that no policy was in place to guide government's agenda for and interface with the MSME sector. ”

## The problem with policy

The Barbados Minister indicated that a Draft Small Business Policy had been developed to “an advanced state of readiness for imminent Cabinet discussion”.

Jamaica, Belize, Trinidad & Tobago have some form of Cabinet approved MSME policy in place

# The problem with policy

Countries with some legislative policies for the sector:

- Trinidad and Tobago [Enterprise Development Policy, September 2014]
- Belize [Act - Cap 282, 2000]
- Antigua and Barbuda [Small Business Act No. 24 of 2007]
- Guyana [No. 2 of 2004]



## The problem with policy

MSMEs which adopt international standards, such as quality standards, will note improvements in their operational efficiencies and productivity .

The CARICOM Regional Organisation for Standards and Quality (CROSQ) published a regional standard entitled “ Requirements for Good Management Practices for Micro, Small and Medium Enterprises” which was approved by the Council for trade and Economic Development in February 2010.

It is not known how many MSMEs have adhered to CROSQ’s standards but it has been noted that the sector in Guyana is reluctant to adopt such standards

## Conclusion

According to Alberto Duran and Kariyma Baltimore of the Association of Caribbean States:

(T)he ultimate objective of public policies in this area is to boost dynamism in enterprises and economic and business sectors so that they can increase their competitive capacity and efficiently respond to the dynamics of markets.

## Conclusion

In addressing SME issues at the regional level, the challenge lies in bringing all the initiatives together in a cohesive manner.

As it relates to public policy, policy guidelines should:

- foster systemic interaction;
- promote the strengthening of productive and innovative capabilities;
- be cohesive and coherent in relation to local development and
- consider economic, political, social and environmental implications and impacts.

## SME internationalization

According to IDB's publication - Going Global: Promoting the Internationalization of Small and MidSize Enterprises in Latin America and the Caribbean, for SMEs to be successful and sustainable vis-à-vis internationalization, there must be a paradigm shift.

Suggestions:

embrace a holistic and coordinated set of national economic and trade policies along with requisite managerial and operational practices within SMEs and targeted institutional innovations.

## SME internationalization

Yet fewer than 15% of SMEs are exporters and struggle to do so because of:

- External constraints
  - Sunk entry costs
  - High trade costs
  - Cost of trade compliance

## Why Internationalize?

- SMEs involved in international trade outperforms those which do not – they hire more workers; pay higher wages; better sales and labour productivity
- These exporters increase the number of their countries' export products and markets
- Provide important tangible and intangible economic benefits that go beyond trade

# Solutions

Governments should enact policies

- To encourage more firms to enter the export market
- To support the survival of firms
- To encourage firms' export diversification
- To encourage the sharing of export knowledge and experience
- To pool regional knowledge wrt to export capabilities

## Solutions, cont'd

- To ensure manageable, customized capacity building amongst potential exporters
- To ensure coordinated government and stakeholder action



## Solutions, cont'd

Financing, or lack thereof, is a major source of concern for the vast majority of businesses in the MSME sector. Listed below are recommendations made by the Caribbean Development Bank in alleviating this major challenge:

- Develop training programmes aimed at improving the capacity of MSMEs to address financial management of their operations in line with financiers' information needs.
- Expand the range of financial products available to MSMEs.
- Introduce tax reforms that allow formal MSMEs to retain a much larger share of their profits and cash flows. |

## Solutions, cont'd

- Increase the adoption of tax reforms that shift the burden of taxation away from direct taxes to indirect taxes and deliberately lower the tax rates for MSMEs.
- Introduce labour reforms that allow MSMEs to be more flexible in terms of hiring and firing.
- Create stronger tax incentives to increase financial intermediation and encourage MSMEs to seek out alternative forms of investment funds
- Improve the enabling environment for access to credit

## Solutions, cont'd

- Overcome the limitations of domestic markets by promoting and fiscally favouring export growth of MSMEs and by increasing the use of ICT “information access” mechanisms.
- Introduce regulatory reforms that would allow AFIs and MFIs to take deposits and offer an expanded range of financial products to their MSME clients.
- Increase the inclusiveness of Credit Unions in terms of affording them access to SME financial programmes as DFI recipients

## Solutions, cont'd

- Put in place legislation that would allow each Caribbean country to adopt Mobile Banking
- Examine the feasibility of establishing Mutual Guarantee Schemes in the larger Caribbean countries.
- Create deliberate incentives to encourage the informal sector to formalise their businesses





**¡MUCHAS GRACIAS!**

**MUITO OBRIGADO!**

**MERCI BEAUCOUP!**

**VEEL DANK!**

**THANK YOU VERY MUCH!**