

**PRESENTATION TO SEMINAR-WORKSHOP On  
INTERNATIONALIZATION of SMEs**  
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Salutation:

I am grateful to the Permanent Secretariat of the Latin American and Caribbean Economic System (SELA) for the kind invitation to me as President of the Small Business Association of Jamaica (SBAJ) to participate in this very timely seminar/workshop on this thought provoking topic: "Internationalization of SMEs".

We exist in one global space and with the advent of technology, distance, time and space have shrunk to millimetres instead of metres; nanoseconds instead of hours; and instant instead of light years. This has provided all producers of goods and services with limitless opportunities to tap into hitherto unreachable markets across the globe; however, it has also forced this group to invest in cutting edge technology to be able to be relevant.

It has been widely posited that the small business sector in any economy is the engine of growth, and I support this wholeheartedly; not because of my position as President of the SBAJ but because of my involvement in the sector.

Just last month the SBAJ held its Annual General Meeting and shortly thereafter a Retreat was convened for the new Board to acquaint the members with the strategic outlook of the organization and prepare a road map to achieve our objectives. At this Retreat a SWOT analysis was done and the threats and weaknesses identified can be seen as barriers to the development of the sector and by extension impact sustainability among the SMEs.

This Seminar/Workshop provides a springboard for SMEs in Latin America and the Caribbean to grasp this concept of Internationalization which could lead them to maximize all the benefits associated with it.

In economics, **internationalization** is the process of increasing involvement of enterprises in international markets, although there is no agreed definition of internationalization. There are several internationalization theories which try to explain why there are international activities.

Those entrepreneurs who are interested in the field of internationalization of business need to possess the ability to think globally and have an understanding of international cultures. By appreciating and understanding different beliefs, values, behaviours and business strategies of a variety of companies within other countries, entrepreneurs will be able to internationalize successfully. Entrepreneurs must also have an ongoing concern for innovation, maintaining a high level of quality, be committed to corporate social responsibility, and continue to strive to provide the best business strategies and either goods or services possible while adapting to different countries and cultures.

Adam Smith claimed that a country should specialise in, and export, commodities in which it had an absolute advantage. An absolute advantage existed when the country could produce a commodity with less costs per unit produced than could its trading partner. By the same reasoning, it should import commodities in which it had an absolute disadvantage. While there are possible gains from trade with absolute advantage, comparative advantage extends the range of possible mutually

beneficial exchanges. In other words, it is not necessary to have an absolute advantage to gain from trade, only a comparative advantage.

David Ricardo argued that a country does not need to have an absolute advantage in the production of any commodity for international trade between it and another country to be mutually beneficial. Absolute advantage meant greater efficiency in production, or the use of less labor factor in production. Two countries could both benefit from trade if each had a relative advantage in production. Relative advantage simply meant that the ratio of the labour embodied in the two commodities differed between two countries, such that each country would have at least one commodity where the relative amount of labour embodied would be less than that of the other country. Whether competitive advantage or absolute advantage, SMEs are faced with the problem of economies of scale.

This makes it difficult for SMEs to be competitive in the global market and therefore absolute advantage would be more suitable to them given the free trade agreements throughout the world. One major tool that SMEs must acquire for internationalization is the International Standardization Organization (ISO) certification. This makes it easier for SMEs to enter the global market.

One attempt to address this is the Anchor Firm Concept which came alive in Ecuador through USAID's Ecuador Local Economic Development program—or the PRODEL, as it is known locally in Ecuador—was launched in November 2007 to identify and address major opportunities and constraints to growth in the market system, while ensuring sustainable impact at the household level.

PRODEL builds on the important role both private and public sector actors play in overcoming obstacles to sustained growth, such as producers' physical isolation, their limited knowledge of end-market requirements, difficulty in accessing financing for working capital or investments, or challenges attaining economies of scale for profitable participation in value chains. Key to PRODEL's design is the recognition that lead firms or "anchor firms" in particular present significant capacity to multiply outputs and increase incomes for low-income populations. This is primarily due to three key factors: large firms like anchor firms require a number of smaller firms and farmers to directly supply products as inputs into their production processes; anchor firms can work well with a large number of service providers—few of which are vertically integrated—and their coinvestments with these providers can accelerate the growth process in the value chains, which often provides increased market opportunities for ancillary SMEs; and anchor firms can offer differentiated products of greater quality and value, giving the market actors a competitive advantage, especially if they control the production process.

The PRODEL Methodology A primary focus of PRODEL is increasing value chain competitiveness which comes from the ability of all actors in a value chain—from input providers and farmer producers, to anchor firms, exporters, and retailers—to anticipate and meet buyer needs, take advantage of end-market opportunities, and adequately respond and adapt to changes in market demand. PRODEL centers its efforts on working with high potential anchor firms to engage input suppliers, farmers, exporters, and retailers in order to foster a stronger, more e chain overall. PRODEL's market-demand-driven approach is grounded in a four-step process that is designed to ensure the appropriate selection of strategic anchor firms, based on competitive value chains and subsectors, and then target those firms and their participating producers groups to strengthen vertical and horizontal linkages, while working with supporting institutions to enhance the availability of financial services to the value chains.

PRODEL also seeks value chains in which there are lead firms who are interested in and/or who currently work with small scale suppliers and SMEs to support business activities. Each chain is then further analyzed through a rapid sector assessment of the requirements and trends of global

endmarkets to identify potential profitable channels. This includes identification of the key anchor firms, which may include processors, exporters, wholesalers, or distributors. In Ecuador, PRODEL has focused on cocoa, coffee, dairy, quinoa, processed fruits/vegetables, fish and seafood; as well as service providers to agribusinesses such as equipment manufacturers, agro-input suppliers, and consultancy firms. Anchor firms (may include processors and exporters, wholesalers and distributors ) Producer Groups & Producers Supporting Institutions.

PRODEL selects anchor firms with the highest potential for benefiting producers or providers in the targeted municipalities, regardless of where the final end-market is. Using available market information and data collected from key informant interviews, PRODEL selects anchor firms based on their role in established markets that have the potential for sustainable growth and broad economic impact. While the anchor firms with which PRODEL works are in various stages of development—some are more nascent firms, while others are more established—all have a network of supporting entities, such as smallholder farmers and SME suppliers. PRODEL partners with firms with the highest potential for benefiting producers or providers in the targeted municipalities, regardless of whether the final market is domestic or international.

One major challenge to internationalization of SMEs is the capacity of the human capital in these entities; therefore building capacity is fundamental to this concept.

Capacity Building is much more than training and includes the following:

Human resource development, the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively.

Organizational development, the elaboration of management structures, processes and procedures, not only within organizations but also the management of relationships between the different organizations and sectors (public, private and community).

Institutional and legal framework development, making legal and regulatory changes to enable organizations, institutions and agencies at all levels and in all sectors to enhance their capacities.

Why is Capacity Building Needed?

The issue of capacity is critical and the scale of need is enormous, but appreciation of the problem is low.

The link between needs and supply is weak.

There is a lack of realistic funding.

There is need for support for change.

Training institutions are isolated - communications are poor.

Development of teaching materials is inefficient.

Alternative ways of capacity building are not adequately recognized.

In its broadest interpretation, capacity building encompasses human resource development (HRD) as an essential part of development. It is based on the concept that education and training lie at the heart of development efforts and that without HRD most development interventions will be ineffective. It focuses on a series of actions directed at helping participants in the development process to increase their knowledge, skills and understandings and to develop the attitudes needed to bring about the desired developmental change.

Another essential mechanism for capacity building is partnership development. Partnerships give SMEs access to: knowledge and skills; innovative and proven methodologies; networking and funding opportunities; replicable models for addressing needs and managing resources; options for

organizational management and governance; and strategies for advocacy, government relations and public outreach.

In conclusion, internationalization of SMEs, though highly critical and fully supported by the SBAJ needs the full commitment of the sector to actualize the concept in all its fullness. My participation in this seminar/workshop will go a far way in broadening our understanding of the concept and propel us further on the road to implementation.

I thank you and I wish for all of us a successful seminar.