

# ENABLING SMEs TO ENTER THE INTERNATIONAL SUPPLY CHAIN

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**Enabling small and medium-sized enterprises (SMEs)** to enter the international supply chain relies on the development of a supportive business environment for SMEs and the build-up of the human, technical, and financial capacity of these SMEs so they can understand the policies and operations of global supply chains and profitably respond to those requirements.

## The Role of SMEs in the Global Economy

In an increasingly international marketplace, many companies are finding that prosperity is best achieved from specialization, as opposed to diversification. While the majority of the world's largest companies continue to provide multiple services to numerous markets, they now purchase many components and goods from smaller companies that serve one particular niche. As the global marketplace continues to develop, SMEs provide an effective tool for economic growth through participation in global supply chains.

SMEs drive economic development by creating a valuable source of employment; SMEs account for 60-70 percent of employment in OECD countries. In developing countries, this number is often much higher. In Ecuador, for example, 99 percent of all private companies have no more than 50 employees.

Unfortunately, SMEs fail much more frequently in these economies. They repeatedly encounter barriers to internationalization; however, several of these obstacles could be eliminated through successful integration into the international supply chain. The United Nations Industrial Development Organization defines the export promotion agenda as the ability to compete by removing supply-side constraints, conform to market requirements, and connect to targeted markets.

By implementing the measures presented in this note, developing countries can make significant progress towards achieving an environment that nurtures the development of SMEs and fosters their successful integration into the international supply chain.

## Government Measures

Governments are responsible for establishing an environment conducive to the development of SME competitiveness. Governments generate policy that impacts the trading environment. They also play a critical role in promoting conformity with global market requirements by building their capacity to supervise the implementation of international quality standards. Finally, governments are instrumental in facilitating access to markets. The following are selected actions governments can take to enhance the development of SMEs.

### *Simplify, Harmonize and Implement Standards and Procedures*

A competitive environment requires the simplification and harmonization of processes, regulations, and standards with domestic, bilateral, regional, and international practices. Disparate regulations and methods of administration create onerous burdens on companies that attempt to compete internationally. The implementation of proper standards requires a sound legal and regulatory framework, a harmonized system for accreditation, certification and inspection, and an advisory capacity for



<b>Barriers to Internationalization of SMEs</b>
1. Lack of entrepreneurial, managerial and marketing skills
2. Bureaucracy and red tape
3. Lack of accessibility to information and knowledge
4. Difficulties accessing financial resources/Lack of capital
5. Lack of accessibility to investment (technology equipment and know-how)
6. Non-conformity of standardization, lack of quality awareness and lack of mutual recognition schemes
7. Product and service range and usage differences
8. Language barriers and cultural differences
9. Risks in selling abroad
10. Competition of indigenous SMEs in foreign markets
11. Inadequate behaviors of multinational companies against domestic SMEs/Lack of government supply-supporting programs
12. Complexity of trade documentation including packaging and labeling
13. Lack of government incentives for internationalization of SMEs
14. Inadequate intellectual property protection

*The table above highlights the 14 greatest obstacles to the internationalization of SMEs as identified by UNECE.*

companies. This involves active capacity building efforts within government agencies and SMEs. Public-private partnerships can support the simplification of procedures by identifying particular requirements that limit market access and by underlining the need for predictability in the business environment.

From a trade facilitation perspective, standardization can be aided by the adoption and implementation of international conventions and agreements such as the World Customs Organization's [Revised Kyoto Convention](#) and the [Convention for the Simplification and Harmonization of Commodity Classification](#); the United Nations's [Geneva Convention for the Harmonization of the Frontier Controls of Goods](#); or by following best practices (see [UN-CEFACT Recommendation 18](#)).

The implementation of these conventions and recommendations provides an opportunity to eliminate procedures that hinder trade operations and introduce higher levels of informed compliance.

#### **Facilitate Access to Actionable Information**

Obtaining information about laws, taxation, customs regulations, business advisory services, training opportunities, and financing sources can be exceedingly expensive and time-consuming. As a result, SMEs often lack the resources to access this information.

Governments play a valuable role in the integration of SMEs into the international supply chain by creating small business administrations that have the responsibility of assisting SMEs; business associations can be encouraged to accept some of this responsibility. Two priorities of these administrations include the facilitation of access to market information and the support of shortcuts to the internationalization process. The ability to access information allows companies to comply with international trade regulations and to learn about new

technologies and efficient operating practices. The Serbian Agency for the Development of SMEs and Entrepreneurs provides one such example.

*For more information, visit:*

<http://www.sme.sr.gov.yu/misijae.htm>

Private sector associations are another valuable source of information. Each year the International Chamber of Commerce specifically recognizes Chambers from around the world that work to develop their SMEs.

*See these recognized Chambers:*

<http://www.iccwbo.org/home/wcfnew/awards/mainpages/bsbp/all.asp>

Beyond direct access to information, small business administrations and chambers of commerce provide educational seminars and support for participation in trade shows. A lack of managerial, marketing, or entrepreneurial skills is commonly cited as a primary cause of SME failure, and SMEs often have difficulty procuring access to potential customers.

*For example, visit the [GFP's profile of training materials](#) that was developed by the Koc University under the Trade and Transport Facilitation in Southeast Europe (TTFSE) program.*

#### **Automate Government Systems**

Another important step a government can take in maximizing transparency and easing private sector compliance is the automation of its goods clearance processes once they have been simplified and harmonized. Automation ultimately enables various agencies to share information with greater ease, which in turn reduces the number of submissions an importer or exporter must turn in. When coupled with better coordination among trade and border agencies, this information-sharing can evolve into a single window for trade. While difficult to achieve in practice, a paper-based or electronic single window heightens the coordination between border and trade agencies, bringing incremental benefits to the trading community, the flow of goods, and the security of national borders.

*For more information, visit:*

<http://www.gfptt.org/topics/Single-Window>

Automation also expedites the goods clearance process considerably, because it allows for faster and more flexible information exchange. By eliminating the need for an importer or exporter to submit paper forms, that process can take place through an advance information exchange or a post-entry audit, two concepts that greatly reduce the time required at the physical point of entry or exit. Further, automated procedures significantly reduce the resources and associated costs required of SMEs throughout the goods clearance process and therefore enhance their competitiveness.

### **Improve Infrastructure**

Many developing countries are plagued by an insufficient business infrastructure. Telecommunications systems are outdated or cost-prohibitive to most SMEs, technologies are antiquated, and access to the Internet is often non-existent. Developing a stronger, modernized infrastructure dramatically improves the capability of SMEs within these countries to trade internationally. Moreover, specific development of an internet-capable landscape, which offers instant access to a global network of consumers and producers, can demonstratively enhance SME participation in international supply chains and the global marketplace.

*To view a measurement of infrastructure impact, visit the GFP website.*

### **Embrace TNCs: Promote FDI**

The presence of Transnational Corporations (TNCs) provides a critical means through which SMEs can specialize and carve out a niche in the international supply chain (also known as a backward linkage). For this reason, implementing programs to attract TNCs in addition to providing assistance to SMEs will help smaller companies join international supply chains.

### **Private Sector Measures**

#### **Linking with TNCs**

By attracting investment from TNCs interested in forging strong linkages with

local SMEs, governments can foster an environment conducive to SME development in the global marketplace. Linkages are varied in nature (backward linkage with suppliers, forward linkage with customers, technology linkage, spillover effect) and impact.

Under the proper circumstances, TNC linkages can enable SMEs to integrate into international supply chains, provide specialized products, develop their operating efficiency and productivity, and foster innovation through technology transfer and demonstration of effects. Past experience has shown, however, that these results are subject to: (1) the implementation of targeted strategies that encourage long-term relationships with TNCs; (2) high adaptability and will to transform from the SMEs; (3) adoption of technology and quality manpower training; and (4) building the comparative advantages of the TNC/SME. Special programs are required to create such an environment; strategies purely based on lower labor cost have not been as effective.

*To learn more about successful TNC/SME partnerships, see UNCTAD's "Enhancing the Competitiveness of SMEs through Linkages:"*  
[http://www.ilo.org/public/english/employment/skills/recomm/publ/pdf\\_05.htm](http://www.ilo.org/public/english/employment/skills/recomm/publ/pdf_05.htm)

#### **Establishing Clusters**

In order to better develop competitive advantages for SMEs, firms can work to establish geographic and industry-oriented clusters of SMEs. SMEs operating in a similar industry or geographical location confront many of the same issues, and pooling resources creates greater opportunities. Clustering allows SMEs to realize many of the operational efficiencies that are characteristic of larger companies, including:

- ◆ Proximity to sources of raw inputs;
- ◆ Availability of suitably customized business development services;
- ◆ Abundance of clients attracted by the cluster tradition in that industry; and
- ◆ Presence of a skilled labor force.

### **Case Study: Tunisia's EDP**

In 1999, the Tunisian government, supported by the World Bank through the Export Development Project (EDP), introduced measures to facilitate trade, starting with the simplification and automated processing of trade documents. The project focused on streamlining customs and inspection procedures and using information and communications technology to improve information exchange associated with cargo clearance.

There is already evidence that Tunisia's investments in trade facilitation have dramatically reduced import and export processing times. Imported goods can now be cleared from ports in an average of 3 days, compared with 8 days a few years ago. The time needed to prepare and process customs declarations has dropped to 15 minutes, down from as long as 3 days.

*For more information about Tunisia's EDP, visit:*

<http://www1.worldbank.org/prem/premnotes/premnote89.pdf>

*To learn about ASYCUDA, a commonly implemented customs automation system, visit:*

<http://www.asycuda.org/aboutas.asp>

### Case Study: Malawi Export Promotion Council

Mrs. Jessica Banda is the sole proprietor of Jessica Creations, which started its operations in 1990 and is situated in Lilongwe, the capital of Malawi. The Company is involved in the manufacture of handicrafts using locally produced materials.

Like other micro, small and medium enterprises, raising capital was an uphill task. Through small personal savings, Mrs. Banda managed to secure start-up capital. Initially, she employed three people. In the first 3 months of the business, the company could only pay staff salaries and some of its debts.

In a bid to broaden her export knowledge, Mrs. Banda approached the Malawi Export Promotion Council (MEPC). Through regular consultations with officials of the Malawi Export Promotion Council, she was able to understand the basics of exporting and identify markets for her products. With zeal and determination, the company was able to export to South Africa and the United States.

In 1995 MEPC helped Jessica Creations to participate at the Berlin International Trade Fair in Germany. The company's participation in trade fairs and other subsequent promotional activities saw it grow from a staff of three to a staff of ten.

The United Nations Industrial Development Organization has initiated a cluster/network development program to assist countries in their efforts to cultivate this concept.

To learn more, visit:  
<http://www.unido.org/doc/4297>

### Use Available Tools to Improve Enterprise Performance

There are tools available to owners of SMEs that enable them to conduct surveys and diagnostics to determine the competitive ability of their company. One of the best sources for such tools is the International Trade Centre of the UNCTAD and WTO Enterprise Competitiveness Business Support Group.

*There are six guides and checkers available for use by SMEs to conduct their own analysis:*

<http://www.intracen.org/ec/>

US Small Business Administration Office of International Trade:

[www.sba.gov/oit](http://www.sba.gov/oit)

### Additional Resources and Links:

◆ Enhancing the Competitiveness of SMEs Through Linkages:

[http://www.ilo.org/public/english/employment/skills/recomm/publ/pdf\\_05.htm](http://www.ilo.org/public/english/employment/skills/recomm/publ/pdf_05.htm)

◆ UNECE. "Internationalisation of SMEs: The UNECE Approach:"

[www.unece.org/indust/sme/internat.htm](http://www.unece.org/indust/sme/internat.htm)

◆ US International Trade Administration. "The Role of Small and Medium-Sized Enterprises in Exports to China: A Statistical Profile, Office of Trade And Economic Analysis, October 2003:"

[http://www.ita.doc.gov/td/industry/otea/docs/China\\_SMEs2001\\_Oct03.pdf](http://www.ita.doc.gov/td/industry/otea/docs/China_SMEs2001_Oct03.pdf)

◆ Wattanaputtipaisan, Thitapha. "Promoting SME Development: Some Issues and Suggestions For Policy Consideration," 57-68:

<http://www.unescap.org/pdd/publications/bulletin2002/ch5.pdf>

◆ Business Organization Networks in the Digital Economy. "The Impact of ICTs on Small and Medium Enterprises." 1st Policy Group Meeting,

Brussels, 14-15 May 2001:

<http://www.deeds-ist.org/Downloaddocs/SME%20networks%201st%20Them%20Wksp.doc>

◆ Poul Rind Christensen, Centre for Small Business Studies, The University of Southern Denmark. "Working Paper, No. 1999/4:"

[http://www.sam.sdu.dk/cesfo/cesfo160803/Publikationer/Cesfo\\_working\\_paper/1999-4.PDF](http://www.sam.sdu.dk/cesfo/cesfo160803/Publikationer/Cesfo_working_paper/1999-4.PDF)

◆ George Starcher, Secretary General, European Bahá'í Business Forum. "The Role of Large Companies in SME Creation and Development:"

<http://www.ebbf.org/documentation/whitepapers/pdf/SMEs.pdf>

◆ East and Central Africa Global Competitiveness Hub:

<http://www.ecatradehub.com/home/index.asp>

◆ "Corporate Social Responsibility and Developing Country SMEs." Report 2002:

<http://www.unido.org/es/doc/5162>

◆ Ruben Ricupero, SG of UNCTAD, "Business Facilitation and Development." Geneva, 12 January 2004:

<http://www.unctad.org/Templates/Webflyer.asp?docID=4358&intItemID=2054&lang=1>

◆ WIPO. "Intellectual Property and Small and Medium-Sized Enterprises:"

[www.wipo.int/sme/en/documents/pdf/brochure.pdf](http://www.wipo.int/sme/en/documents/pdf/brochure.pdf)

◆ The World Bank SME Department:

[http://www2.ifc.org/sme/html/the\\_case\\_for\\_smes.html](http://www2.ifc.org/sme/html/the_case_for_smes.html)

◆ EC report urges boost for SME finance:

<http://www.eubusiness.com/topics/SMEs/EUNews.2003-12-04.5846>

◆ Benchmarking for auto-components manufacturers:

<http://www.intracen.org/ec/gauge/> and <http://www.intracen.org/ec/gauge/jpa.pdf>

◆ SITPRO:

<http://www.sitpro.org.uk/policy/singwin/>

◆ Overview of "Doing Business 2005." World Bank Report:

<http://rru.worldbank.org/Documents/DB-2005-Overview.pdf>

◆ US Small Business Administration Office of International Trade:

[www.sba.gov/oit](http://www.sba.gov/oit)

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