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Concept Note for Workshop 1

SMEs: How to better integrate them in trade and investment opportunities?

1. Workshop Background: The Rationale

Micro, small and medium-sized enterprises (SMEs) are an essential component of the production structure both in Latin America and the Caribbean and in Europe. There are various indicators of their importance: the extremely high proportion of all businesses that are SMEs, the number of jobs they create (67% of employment), and their contribution to gross domestic product (GDP). While SMEs provide many jobs in Latin America, they contribute little to production. This reflects their heterogeneous production structure, their specialization in low value-added products and their scant contribution to exports (less than 5% in most countries).

There are several contrasts between SMEs' contribution to GDP in Latin America and in European countries. While in Latin America, around 30% of GDP is produced by SMEs, in European countries the production of these firms is above 60%. As a result, the productivity gap between different firm sizes in Latin America and in European countries persist over time, i.e. the productivity of small firms relative to large firms in Latin America ranges from 16% to 36%, compared with relative productivities of 63% to 75% in Europe¹.

These gaps in productivity and export capacity are caused by the highly diverse economic structures in both regions. Latin America and the Caribbean's production structure is marked by "the large productivity differences – much larger than those found in developed countries – among sectors, within sectors and among companies within a given country. This is known as structural heterogeneity, which refers to marked asymmetries among segments of firms and workers, and the concentration of employment in strata characterized by very low relative productivity"². The large productivity gaps³ (among sectors and among businesses), meanwhile, reflect and reinforce the gaps in other areas: skills, adoption of technical developments, negotiating skills, access to social networks, and upward occupational mobility during a career. It is also one of the causes of the deep social inequality present in Latin America.

In Europe SMES have shown resilience in the recent crisis and remain one of the key engines of the European economies. However while performing better in terms of productivity than their Latin American and Caribbean counterparts, they often lack international exposure and training for

¹ OECD/UN-ECLAC (2012). "Perspectivas económicas de América Latina 2013: Políticas de pymes para el cambio estructural".

² ECLAC (2010). "La hora de la igualdad. Brechas por cerrar, caminos por abrir".

³ See also, ECLAC/ AL Invest / EUROCHAMBRES: Building SME Competitiveness in the European Union and Latin America and the Caribbean – Policy proposal by the private sector.

internationalisation, rely on limited capital to acquire advanced technologies and face difficulties in accessing to finance. However numerous supports are available ranging from business development services to professional organizations and from support programs to development policies. Clustering has been widely developing in the last 10 to 15 years and the interface between SMEs and innovation is being sought for at local, national and European level.

SMEs have a key role to play in enhancing Latin America and the Caribbean's economic growth. But SMEs in the region are heterogeneous. On the one hand, there are a large number of micro-firms whose creation is the result of self-employment strategies under conditions of unemployment. Frequently, these are informal firms with limited human capital, poor access to financial resources, little or no internationalization capabilities, and specialization in low-tech activities. In many cases, these dynamics result in markets where both buyers and sellers belong to socially excluded segments. Problems faced by these firms lie at the intersection between economic and social dimensions. On the other, we find a few high-growth small and medium-sized firms (gazelles) which present more dynamic sales and employment creation performance and whose modern management allows for taking advantage of market opportunities. Thus, the SME universe within the region includes vastly different economic and social realities. Heterogeneity and social exclusion limit the formulation of policies and make it impossible to identify a single best policy or best instrument which can be applied to all firms.

So, public policies are called to play a central role in sustaining SMEs development, with the objective of supporting SMEs as catalysts of structural change. SMEs policies should consider, at least the following issues⁴ : a) reducing the financing gap for SMEs (access to finance is one of the principal barriers limiting their development), b) enhancing SME competitiveness through the incorporation of knowledge and the use of new technologies, in particular, more intensive use of ICTs can help SMEs augment their competitiveness, lower the costs of entering international markets and enhance management, c) improving skills in the workforce and the connection between the education system and the productive sector (the region's lag in education and skills represents one of the major challenges SMEs face), d) a better co-ordination between the education system and the productive sector, and e) the integration of production clusters into productive value chains represents opportunities for SMEs.

Between the two regions, over the last 15 years, a vast array of agreements has been put in place to facilitate trade and investment, and SMEs have been central to various economic, scientific and even development cooperation programs. They are also often central in decentralized cooperation operated between territories of both regions. Only at the level of the European Union such programs as ELAN or AL-Invest as well as the European Enterprise network, only to name a few, are in place to bring support to SMEs in their approach of Latin American and the Caribbean.

Against this backdrop this workshop should bring its participants to reflect on how to make the best use of the existing opportunities and support schemes to make the best of the reciprocal assets of both regions to encourage the participation of more SMEs into a bi-regional economy.

2. Workshop Focus: The Agenda

How to support and develop a more efficient institutional framework?

- Business climate

⁴ OECD/UN-ECLAC (2012). " Perspectivas económicas de América Latina 2013: Políticas de pymes para el cambio estructural".

- Streamline administrative procedures
- Coordination among support agencies
- Observatory of good practices in support of competitiveness and internationalization of SMEs

How to support and develop competitiveness at industry level?

- Innovation in products and processes as well as technology transfer, focusing on the linkages between SMEs and R&D
- Value chains identification and reinforcement
- Clusters, synergy and productivity improvement
- Access to market information/economic intelligence

How to support and develop competitiveness at firm level?

- Training of managers
- Professional training
- Technological diffusion
- Start-ups

How to support and develop access to markets and internationalization?

- Development of regional and sub-regional markets in Latin America and the Caribbean, boosting European investments
- Internationalization: trade and export support
- Inclusion of SMEs into productive value chains
- Maintaining a network of intermediary organisations for information exchange on business opportunities
- Targeted cooperation among firms in new trends of the global economy such as renewable energy, clean technology or green economy

3. Workshop Results: The Expected Recommendations

Sketching paths to develop SME competitiveness, identifying good practices that can be shared at the institutional, industry and firm levels.

Establishing a true bi-regional perspective on innovation, market access/internationalisation and investments.

Joint EU-CELAC programmes to support SME inclusion into bi-regional value chains in order to jointly access global markets.

Take stock of existing programmes and explore ways to enhance coordination between them and to develop joint support schemes.

4. Contacts

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