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Sustainable Local Economic Development

SME development

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SMEs and Globalization

Globalization of the world economy has increasingly drawn the Small and Medium Enterprises (SMEs) into global value chains

Globalization facilitates access to global markets – now an important part of business strategy for many outward-looking SMEs

Access to global markets for SMEs can offer a host of business opportunities

- Access to larger and new markets;
- Help prospective high growth firms realize their potential
- Possibilities to exploit economies of scale and technological advantages;
- Upgrading of technological capability;
- Lowering and sharing of cost including R&D costs.

Globalisation can also pose challenges and threats to SMEs - exposure to international competition

Importance of SME sector

Economic Development

- Balanced Regional Development
- Better Resource utilization
- Generation of Employment
- Entrepreneurship Development

Industrial Growth

- Contribution to Industrial Output
- Supply of intermediates to Large Enterprises
- Exports
- Ability to adapt to changing environment

In OECD countries, SMEs account for over 95% of firms and 60-70% of employment.

SMEs have propelled the growth of leading Asian economies.

- SMEs in Asian economies account for around 40-60% of capital investment, 60% of employment and 50% and 35% of output and exports respectively.

Sustainable SME Development & Growth: Issues & Challenges

With important role in an economy, sustainable development and growth of SMEs would entail examination of several issues/challenges including:

- Access to adequate financing: value chain financing
- Access to technology
- Managerial capabilities
- Productivity
- Regulatory issues
- Brand value
- GOOD GOVERNANCE

SMEs – must evolve strategies to address these issues

Financing Programmes

Value chain financing: wide range of products

Export Credit

Medium / Long Term

- Lines of Credit
- Buyer's Credit
- Supplier's Credit

Short Term

- Pre/Post Shipment Credit

Import Credit

- Import Loan for capital goods
- Import Loan for Raw Materials/ Intermediates

Loans for Enterprises

- Term Loans for expansion/ diversification/ new projects/ product development/ marketing/ research & development
- Term Loans for overseas equity investment
- Direct equity stake in ventures abroad

Innovative Programs for Empowering SMEs

Export Marketing Finance

SMEs are extended export marketing finance to implement strategic export marketing plans aimed at entry into new markets and term loans for supply side upgradation

Generation of significant exports to new country markets

Potential for many of these companies to become large companies with high export orientation

Variety of sectors:

- **Knitting**
- **Needles**
- **Polyester Ropes**
- **Home Appliances**
- **Pharmaceuticals**
- **Jute Products**
- **Printing Machinery**
- **Auto Components**
- **Herbal Products**
- **Textiles**
- **Software**
- **Castings**

Innovative Programs for Empowering SMEs

Lines of Credit

- ❑ Banks extend export Lines of Credit (LOC) to overseas financial institutions, regional development banks and foreign governments and their agencies and Buyers' Credits (BC) to foreign corporates
- ❑ LOCs may also be extended at the behest of the Government
- ❑ LOCs serve as a market entry mechanism for exporters and provide a safe mode of non-recourse financing option
- ❑ LOCs/BCs are particularly relevant for SME exporters as the payment risk is borne by the Bank

Innovative Programs for Empowering SMEs

Enterprise Management Development Services

Competency as Collateral :

- ☀ Development of Loan.Com an IT tool kit which will enable SMEs to develop bankable business plans thereby enhancing their access to finance
- ☀ Tool kit will also enable lending institutions to screen viable projects
- ☀ Pioneering initiative for supporting SMEs and for providing term loans and export finance facilities to identified units to help them in their globalisation efforts.
- ☀ Learning from the programme to be transferred to other developing countries; capacity creation and institution building in the global arena.
- ☀ Banks have already financed select firms by way of term loans and export finance facilities, using the tool kit

Innovative Programs for Empowering SMEs

Factoring and Forfaiting for SMEs

- ❑ **Factoring - a trade financing instrument where export receivables are financed without risk for exporters**
- ❑ **Main target users are SMEs**
- ❑ **Global Trade Finance Ltd – promoted by Exim Bank of India to provide export factoring and forfaiting services to Indian exporters**
- ❑ **Co-promoters –International Finance Corporation, Washington. Exim Bank has since disinvested in favour of State Bank of India**

Innovative Programs for Empowering SMEs

Supporting overseas investment

- ❑ **Comprehensive assistance:**
 - ✳ **Pre investment advisory services**
 - ✳ **Finance through debt and equity**
- ❑ **Provision of analytical information, advise to enterprises on structures, review, due diligence etc.**
- ❑ **Bank finance available for:**
 - ✳ **Greenfield projects**
 - ✳ **Brownfield expansion**
 - ✳ **Overseas acquisitions directly or through special purpose vehicles**
- ❑ **Foreign Currency term loan to overseas Wholly Owned Subsidiary / Joint Venture for import of plant and machinery and services**
 - ✳ **Can be structured as supplier's credit or buyer's credit/ Line Of Credit**
- ❑ **Banks also syndicate financing packages**

Innovative Programs for Empowering SMEs

Clusters of Excellence

- ❑ Exim Bank of India initiated a 'Clusters of Excellence' programme to assist small and medium sized companies in achieving international quality standards
- ❑ The programme aims to assist SMEs to:
 - ✳ Achieve international quality certification
 - ✳ Enhance their capability and acceptance in overseas markets
 - ✳ Facilitate knowledge sharing with other companies in the cluster
- ❑ Enabled companies to access international consultancy at low cost due to cluster approach
- ❑ Numerous companies were assisted across a range of sectors including engineering goods

Grassroots Business Initiative

Linking rural industries to global market



- ❑ Creation of Export Capability in Grassroots Enterprises.
- ❑ Export Marketing Services
- ❑ Capacity building through training
- ❑ Poverty reduction through export linkage

Rationale and Imperatives of Good Governance

World economies have become highly interconnected and interdependent.

Networking, Alliances, Partnerships, Long Term relationships are key elements of the strategies of an enterprise

Acceptable and credible administrative, technological, financial benchmarks are sought

This calls for Good Governance, strong institutions and enterprises with good professional practices, systems and procedures to ensure sustained development success

Good Governance is transparent, accountable, efficient and responsive to stakeholders

Good Governance Framework & Good Governance Action Plan

Key elements for improving Transparency and Accountability:

Strengthened Procurement Arrangements

Strengthened Financial Management

Enhanced Public Disclosure

Involvement of Civil Society

Complaints and Redressal Mechanism

A Code of Ethical Conduct

Sanctions

Project Specific implementation risks.

Good Governance Framework

AT COUNTRY/ REGIONAL LEVEL

- Strengthen legal, regulatory and institutional framework
- Strong laws and regulations and strong institutions to implement and enforce them are essential for good governance
- A major portion of the revenue is spent through procurement of works, goods and services.
- Hence fair, equitable, transparent and efficient procurement will lead to optimal use of resources for development.

Financial Management

AT ENTERPRISE LEVEL

- Weak financial management practices pose serious fiduciary risks.
- Well structured Financial Management and Disbursement Arrangements.
- Disclosure of information strengthens good governance

Disclosure of Information

Disclosure enhances Transparency:

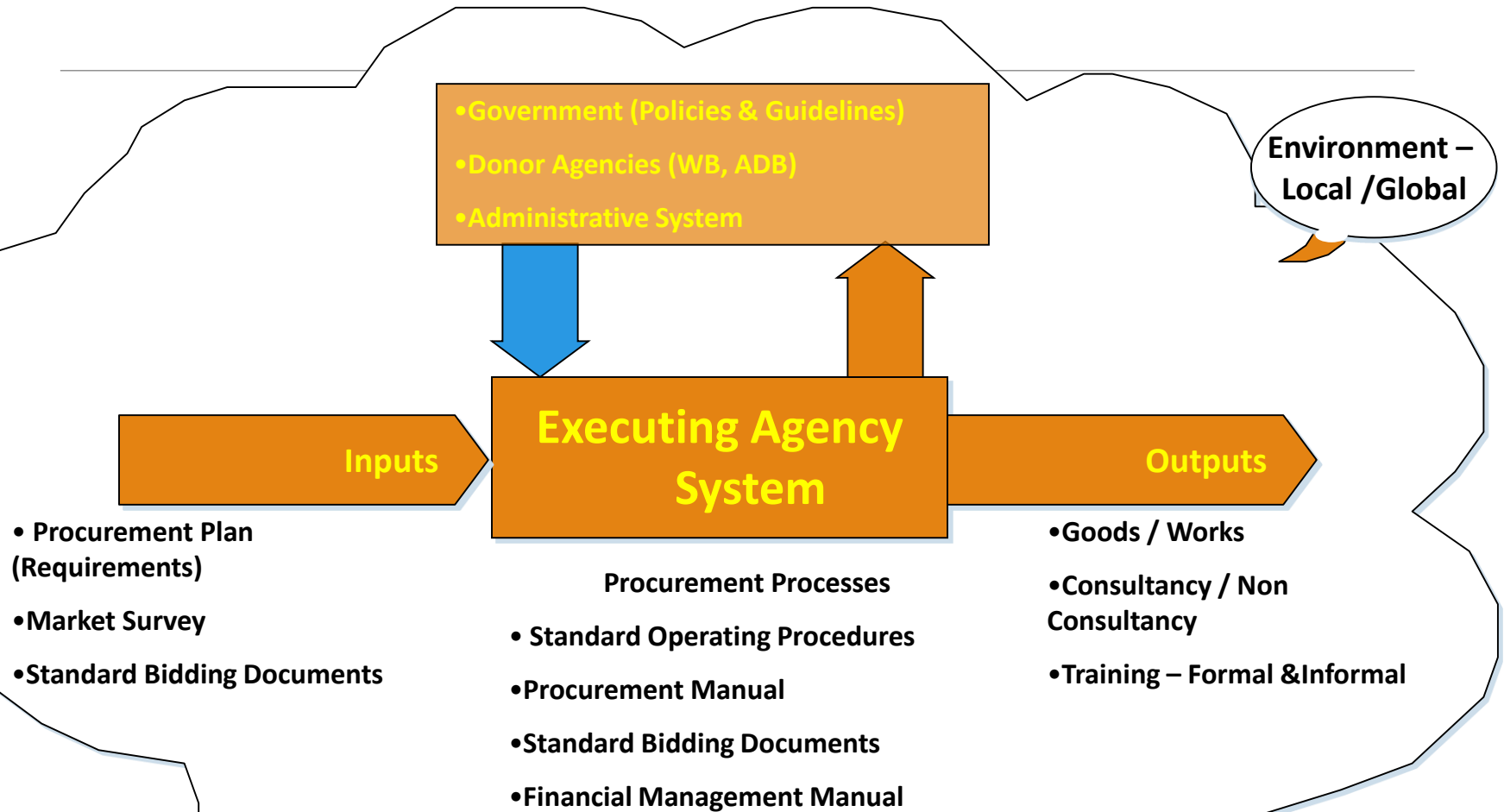
- Basic Enterprise and Project related information
- Information related to environment
- Information related to social development
- Information related to Procurement.

Cont.,

Disclosure of Information

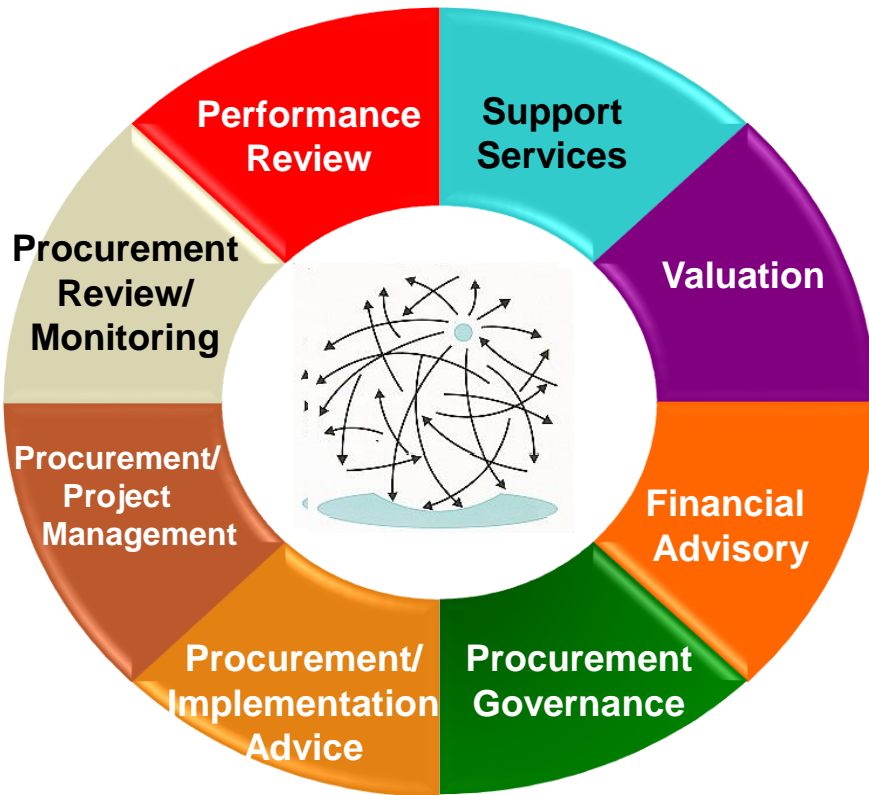
- Information related to Contract management
- Information related to Quality Monitoring
- Information related to Financial Management
- Information related to Complaints & Redressals
- Any other relevant project and enterprise level information

Procurement Management -An Ecosystem

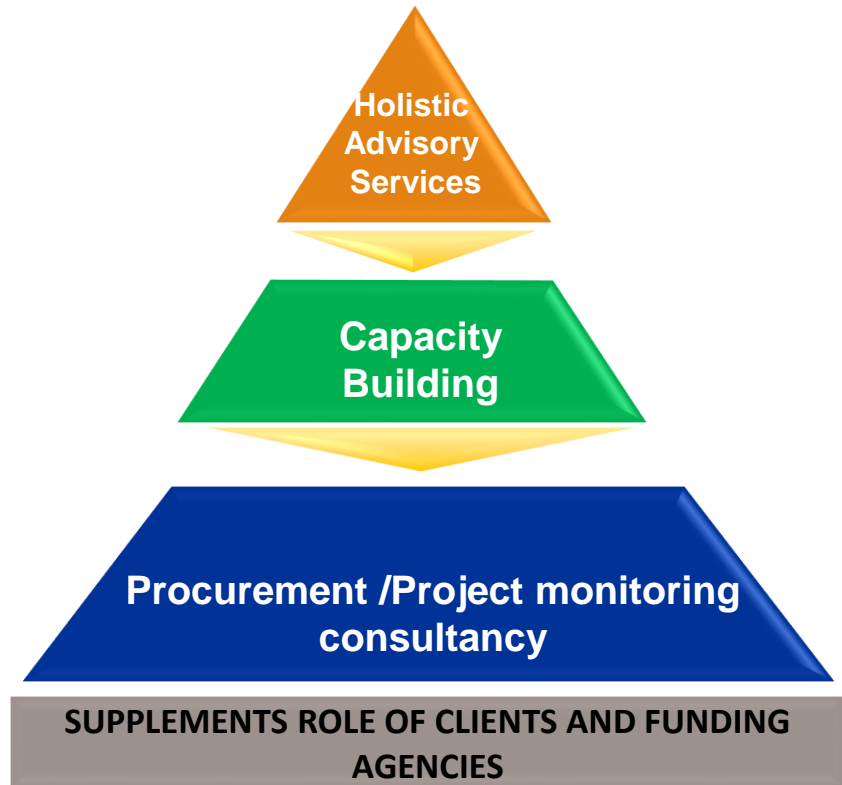


Range Of Products & Services

At All Stages of Procurement/Implementation Cycle



Value Based Services to Clients



SOUND PROCUREMENT POLICIES & PRACTICES ESSENTIAL FOR GOOD GOVERNANCE

The Definition of SME

Small and Medium-sized Enterprises, are defined as enterprises which:

- Employ fewer than 250 persons and
- Have an annual turnover not exceeding EUR 50 million or
- An annual balance sheet total not exceeding EUR 43 million.

SMALL AND MEDIUM SIZED ENTERPRISES

Small and medium-sized enterprises (SMEs) are a very heterogeneous group of businesses usually operating:

- in the service,
 - trade,
 - agri-business,
 - and manufacturing sectors.
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They include a wide variety of firms such as:

- village handicraft makers,
- small machine shops,
- and computer software firms that possess a wide range of sophistication and skills.

Some are dynamic, innovative, and growth-oriented while others are satisfied to remain small and perhaps family owned.

SMEs usually operate in the formal sector of the economy and employ mainly wage-earning workers.

SMEs are often classified by the number of employees and/or by the value of their assets.

Importance of SMEs

SMEs are the Engine of Growth

SMEs are Essential for a Competitive and
Efficient Market

SMEs are Critical for Poverty Reduction

SMEs Play a Particularly Important Role in
Developing Countries

Importance of SMEs

- 99% OF THE WORLD'S ECONOMIC ENTERPRISES ARE SMEs
- AROUND THE WORLD, SMEs ACCOUNT FOR 55-95% OF COUNTRY GDP
- MORE THAN 50% OF THE WORLD'S LABOR FORCE IS EMPLOYED BY SMEs
- GLOBALLY, SMEs GENERATE THE LARGEST NUMBER OF NEW EMPLOYMENT OPPORTUNITIES EACH YEAR
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- SMEs ARE ESSENTIAL FOR ECONOMIC AND SOCIAL PROGRESS

SMEs are the Engine of Growth

SME sector is the largest provider of employment in most countries,
especially of new jobs

SMEs are a major source of technological innovation and new products

SMEs are Important for Poverty Reduction

SMEs tend to employ poor and low-income workers

SMEs are sometimes the only source of employment in poor regions and rural areas

Self-employment is the only source of income for many poor

SMEs play a particularly important role in developing countries where poverty is most severe

The Definition EXPORT

Commodities carried or sent to another country

To ship a product outside a country or region

EXPORTS – “PULL OPTION”

EXPORTS act as a “PULL” factor to bring the SME’s together because in domestic market they are already competing with each other but in exports they need help / advise !

EXPORT CONSORTIA

A tool to increase SME exports

SMEs usually have difficulty exporting to foreign markets: they may lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce products in quantities or quality that are not adequate for foreign buyers, among many other potential problems. However, these problems can often be overcome through cooperation among SMEs. By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets.

WHAT IS AN EXPORT CONSORTIUM?

An export consortium is a voluntary alliance of firms with the objective of promoting the goods and services of its members abroad and facilitating the export of these products through joint actions.

Members of a consortium realize that cooperation must prevail over competition in order to access key markets and the latest technology.

An export consortium can be seen as a formal medium- to long-term strategic cooperation between firms that acts as a service provider specialized in facilitating access to foreign markets.

Most consortia are non-profit entities.

WHAT IS AN EXPORT CONSORTIUM?

Export consortia not only exist among firms in the manufacturing sector, but can also be found in the service sector as well as among artisans. In Italy, the country with the most extensive consortia experience, the main operating sectors of export consortia are:

- Plant, machinery and engineering;
- Textiles, clothing, leatherwear, footwear;
- Food, wine, beverages;
- Chemicals;
- Wood and furniture;
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- Construction industry and related sectors;
- Electronic goods, electro technology and optical instruments;
- Jewellery, costume jewellery.

WHY OPT FOR AN EXPORT CONSORTIUM?

SMEs often have considerable difficulties to enter foreign markets. Export consortia cannot only assist their members to achieve an export presence, but can also entail significant additional benefits.

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- the necessary knowledge and financing,
- may not meet foreign regulatory requirements,
- or may produce products in quantities or quality that are not adequate for foreign buyers, among many other potential problems.

However, these problems can often be overcome through cooperation among SMEs.

By combining their:

- knowledge,
- financial resources and
- contacts within an export consortium,

SMEs can significantly improve their:

- export potential
- and reduce the costs and risks involved in penetrating foreign markets.

Export Consortia: A Possible Solution

By cooperating within an export consortium, which combines the expertise and financial means of several firms, SMEs can overcome the obstacles and effectively enter and develop foreign markets at reduced cost and risk.

At the same time, members can improve their profitability, achieve efficiency gains and accumulate knowledge.

By improving firms' access to information on foreign markets and by leading to a greater diversification of exports, export consortia can

Risk reductions

By improving firms' access to information on foreign markets and by leading to a greater diversification of exports, export consortia can significantly reduce the risk of exporting and of exploring new business opportunities abroad. Diversification is achieved through an increase in the number of markets targeted as well as through a reduction of seasonal fluctuations in exports, especially when markets are geographically dispersed.

Improved profitability

Participation in an export consortium can greatly improve the profit margins of member firms through a variety of savings, the development of an export strategy and the achievement of stable exports.

Within export consortia, members share administrative and promotional costs and thus avoid the expenses of establishing their own export department. By jointly using transportation and other export facilities, additional time and cost savings can be achieved.

Efficiency gains

Inter-firm cooperation of the type found in consortia allows SMEs to overcome the challenges arising from their small size and to exploit economies of scale and scope, which cannot be attained by the individual firm.

In addition, activities can be undertaken that individual firms may not be able to carry out on their own, such as market research and product development.

Knowledge Accumulation

One of the most important benefits of export consortia is linked to the accumulation of know-how. Firms participating in export consortia typically have limited export experience and are in the early stages of export market entry or expansion.

By participating in an export consortium, members can improve their knowledge of how to operate in foreign markets, how to improve business operations in areas not related to exporting and of how to participate in alliances.

Exporting is a classical example of “learning by doing”. By participating in an export consortium, members can tap the different export-relevant resources and skills within the individual firms.

Additionally, members may exchange knowledge in several areas such as on how to negotiate with banks or on how to implement certain technical standards.

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