

PART II
Chapter 12

Internationalisation of SMEs (Dimension 10)

Encourage and support SMEs to benefit from the growth of markets
(Small Business Act Principle 10)

Enterprises are under increasing pressure from globalisation and the constraints of domestic markets, and the internationalisation of their activities is crucial so as to benefit from the growth of markets. Internationalisation can bring many advantages to SMEs, such as increased productivity by being exposed to competition outside the country, better management practices and a larger market for their goods, as well as creating a wider business network. SMEs can also grow and achieve economies of scale which cannot be reached when operating in the domestic market alone. Nevertheless, only a small percentage of SMEs are involved in exporting activities relative to their share in local and regional economies. To help SMEs tap into external markets, governments should provide support to encourage them to export. This chapter focuses on government activities in promoting exports by SMEs.

Introduction

Under the increasing pressure of globalisation and the constraints of domestic markets, enterprises consider internationalisation¹ of their activities to be a crucial step towards benefitting from the growth of markets. Small enterprises are being confronted with the challenges of a globalised, highly competitive economy where innovation, technology and the ability to serve consumer needs drives market success. In the Eastern Partner (EaP) countries in particular, SMEs quickly learn that domestic markets provide limited opportunities for growth (this is less true for Belarus and Ukraine). Expansion outside the nation's borders thus becomes a natural goal for a growing SME.

Internationalisation can have many advantages for SMEs. By being exposed to competition outside the country, firms are pushed to be more productive through innovation and the adoption of technology in order to be able to compete with other firms. Small firms also get the chance to be exposed to international best practice and to create a wider business network. Finally, by entering the global market, SMEs can grow and achieve economies of scale which cannot be reached when operating in the domestic market alone.

Despite these numerous advantages, only a small percentage of SMEs are involved in exporting activities, compared to their share in local and regional economies. According to the OECD Measuring Entrepreneurship Indicators, SMEs (firms with up to 250 employees) contributed between 20 to 70% of exports in their countries in 2007, and the share of exports by SMEs is higher for smaller countries.²

In order to help SMEs to tap into external markets, many governments put in place programmes to encourage exports. Generally, there are informational, administrative and technical barriers to enter external markets. Most of these barriers will affect SMEs disproportionately due to their limited resources, weaker management skills and lack of information. Government programmes should therefore be directed towards providing those skills and knowledge which are most needed by SMEs.

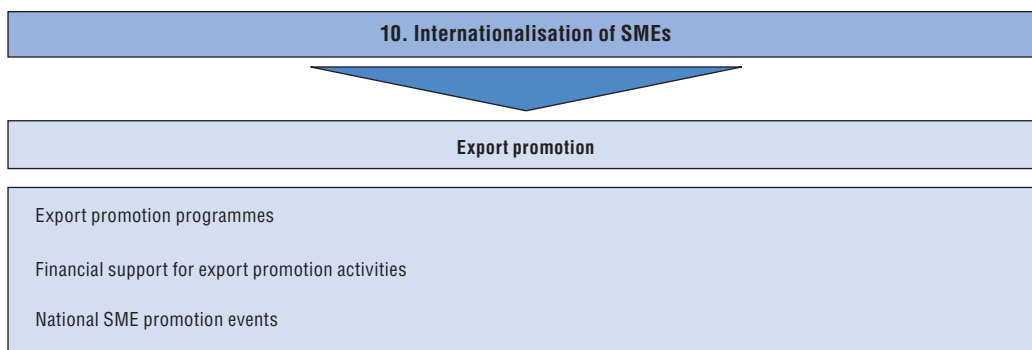
Assessment framework

This principle consists of one single dimension which is made up of three indicators covering several aspects of export promotion for SMEs (see Figure 12.1).

Analysis

To encourage businesses to export, government programmes can provide support in the following areas: financing, improvement of the business environment, capacity building and access to information and markets. Most existing export support programmes both in OECD and EaP countries belong to the last category. Moreover, member countries of the World Trade Organization (WTO) – Armenia has been a member since 2003, Georgia since 2000, the Republic of Moldova, 2001 and Ukraine 2007³ – are not allowed to directly subsidise their export activities. However the government may indirectly support firms by providing information and training, as well as financing export promotion activities.

Figure 12.1. **Assessment framework for Dimension 10: Internationalisation of SMEs**



In the European Union, several governments support the internationalisation of SMEs, *e.g.* by providing financial support for export promotion, market access strategies and participation in trade fairs (Cyprus, the Czech Republic, Denmark, Estonia, France, Germany, Ireland, Italy, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, the Slovak Republic, Spain, Sweden and the United Kingdom). Some of them (*e.g.* Denmark, Slovenia) focus on high-growth companies willing to internationalise; others have established new export promotion agencies (*e.g.* Luxembourg) or new support programmes (*e.g.* Hungary). A mentoring scheme, whereby large companies support the internationalisation of SMEs, is also being piloted (*e.g.* France) (European Commission, 2011).

In Poland, in particular, the measures include subsidies for obtaining product certificates, for publishing promotional materials, and for trade promotion programmes. Other forms of promotional activity include funding consultancy to evaluate export market opportunities, export credit services and information for SMEs on export markets (via a website) (OECD, 2010).

As in the case of business services, the support needed by SMEs that are not yet exporting is different to the support needed by those that have already entered the exporting arena. Firms that are not yet involved in exporting find it harder to access information on the markets, their specific demands and potential business partners. They also find it difficult to make strategic plans for entering markets. Firms that are already in the exporting market on the other hand, are more interested in developing their marketing skills and creating a reliable business network (OECD, 2008).

Export promotion activities are sometimes integrated into investment promotion. The two areas have many synergies and often investment attractiveness depends on the exporting capacity of a country. This role is usually taken by an agency with the specific role of implementing investment and export promotion programmes.

In the EaP countries, Armenia, Georgia, and the Republic of Moldova have agencies that specialise in promoting exporting firms:

- The Armenian Development Agency (ADA) provides support for participation in international trade fairs, provides market information to exporters, carries out trainings and promotes Armenian products on foreign markets. Moreover, the Export Promotion programme within SME DNC provides information and specialised advice on internal exporting procedures as well as requirements for exporting specific products. It also carries out training courses for upgrading skills in international trade, marketing,

management, finance and negotiations. It has also published the Exporting Roadmap, which is available on its website.

- An Export Promotion unit was created at the end of 2010 within the Georgian National Investment Agency (GNIA) within the Ministry of Economy and Sustainable Development. The unit provides information on legislation, trade regimes, export procedures, etc. to firms interested in exporting and organises workshops and seminars.
- Moldovan Investment and Export Promotion Organisation (MIEPO) is the agency within the Ministry of Economy responsible for export promotion activities and implementation of the strategy aimed at attracting investments and promoting exports (2006-15). The activities of MIEPO are mainly focused on the organisation of international exhibitions and fairs, where SMEs are usually well represented. The organisation also provides information on exporting procedures.

All three agencies provide financial support to exporting firms by allocating subsidies to firms that want to participate in trade fairs. For example ADA covers up to 50% of costs for firms located in Yerevan and up to 80% for firms located in other regions. Moreover, in Armenia the Export-led Industrial Strategy, in force since 2012 and implemented by ADA, aims to promote exports through a strategic approach in prioritised sectors based on public-private partnership mechanisms.

The Export Promotion Department within the Azerbaijan Export and Investment Promotion Foundation (AZPROMO), a joint public-private initiative, aims to strengthen and expand the non-oil export capacity of the country. However, the agency does not primarily target SMEs in its activities of export promotion support. In addition, an action plan “On export promotion of non-oil products in 2011-13”, co-ordinated by the Ministry of Economic Development, envisages the improvement of the business environment for foreign trade activities in the non-oil sector. Among its plans are the building and strengthening of export infrastructure as well as several targeted measures, such as spreading awareness, education of entrepreneurs in the fields of quality management in enterprises, organising forums and other campaign activities.

Belarus and Ukraine have no specialised agency for export promotion. However, Belarus has a National Program for Export Development for 2011-15 and Ukraine has an Action Plan to Support Export Activities of Small and Medium Business Entities for 2009-11. No funds have been allocated to either of these plans, both remaining only on paper.

Table 12.1. **Scores for Dimension 10: Export promotion**

	Armenia	Azerbaijan	Belarus	Georgia	Republic of Moldova	Ukraine
10.1.1. Export promotion programmes	2.5	3	2	3	2.5	2
10.1.2. Financial support for export promotion activities	3	1	1.5	3	1.5	2
10.1.3. National SME promotion events	1	2.5	2.5	4	4	1.5
Weighted average	2.50	2.07	1.86	3.14	2.29	1.93

Source: Small Business Act assessment conducted in Eastern Partner countries (2012); see Scores and Methodology for further information.

The way forward

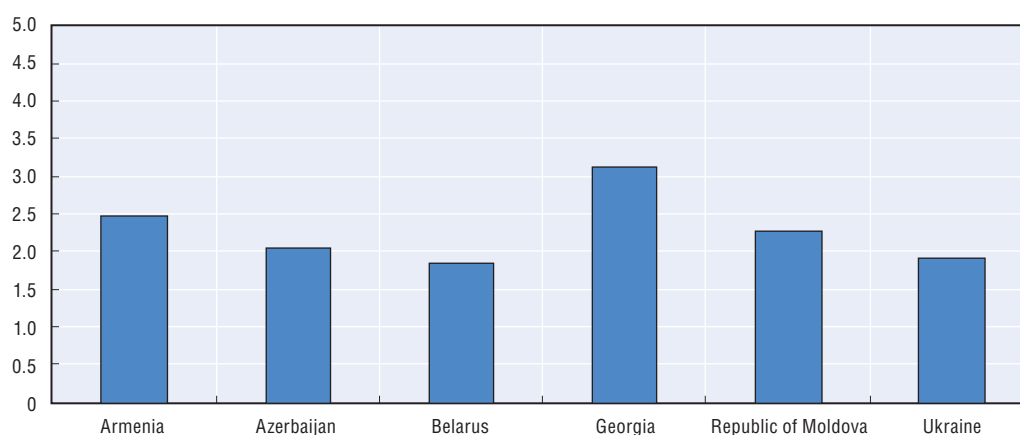
Export promotion agencies in the EaP countries could further improve the capabilities of domestic firms to compete internationally by improving their access to trade finance

and export insurance, assisting them in obtaining creditworthiness, rating potential international partners, providing international market information, fostering research and development and implementing international quality standards.

Creating greater awareness of exporting as a growth and market expansion opportunity can give a boost and increase the interest of firms in exporting. However, information is limited. Greater awareness could lead to overcoming the barriers arising at various stages of the exporting process.

Finally, it is crucial that all the export promoting activities of various government and non-government agencies are co-ordinated in order to avoid overlap and reach maximum efficiency. All countries should set up monitoring and evaluation mechanisms to make it easier to assess the effectiveness of export promotion programmes.

Figure 12.2. **Weighted scores for Dimension 10: Internationalisation of SMEs**



Source: Small Business Act assessment conducted in Eastern Partner countries (2012); see Scores and Methodology for further information.

Notes

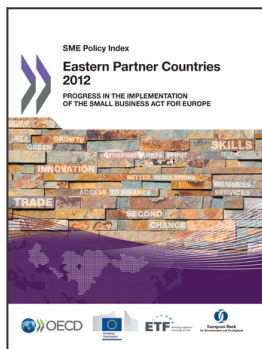
1. Apart from exporting and importing, internationalisation may include other activities such as subsidiaries, branches or joint ventures abroad.
2. OECD *Trade by Enterprise Characteristics Database*, extracted on 29 August 2011 from OECD.Stat.
3. Azerbaijan and Belarus have observer status, their working parties having been established in 1997 and 1993, respectively.

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