



# SME, FINANCE AND TRADE

2<sup>nd</sup> OECD-ASEAN Regional SME Policy Roundtable: Good Practices in International Market Expansion for SMEs

Near-Term Priorities for SME Development in 2014-15

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## OECD: CFE and the Working Party on SMEs and Entrepreneurs (WPSMEE)

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Aims to increase awareness among policymakers about the importance of reducing the bias against SMEs in public policies

- Tax treatment
- R&D Financing
- Export financing
- Risk guarantees provision



## Why do we care?

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### SMEs

- Higher cost of compliance with regulation
- Face problems in access to finance
- **But, overprotect incumbents**

### Entrepreneurs

- New enterprises are those that make economies and societies more dynamic.

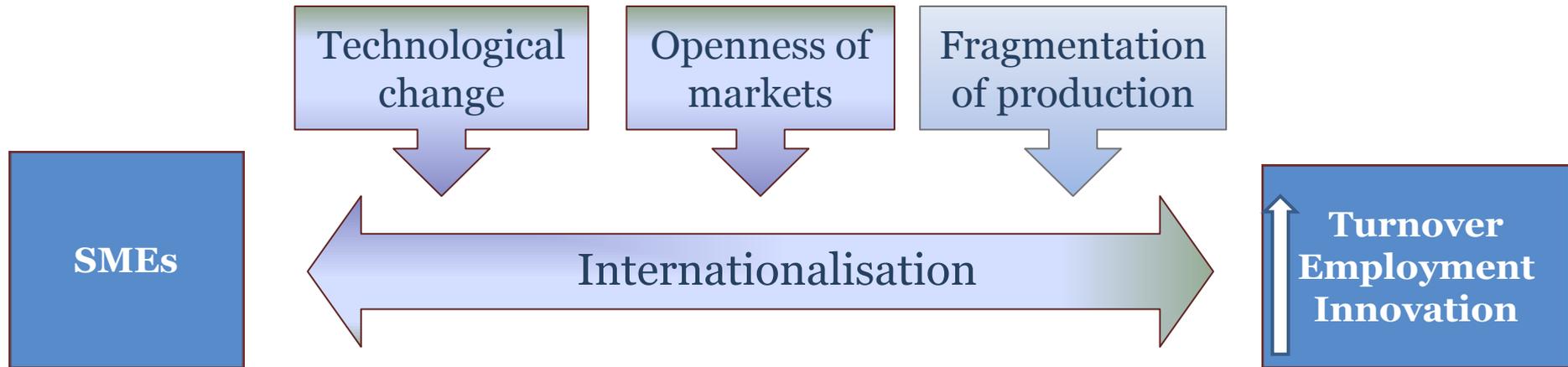


## SMEs have a large margin of improvement in their contribution to trade; large variability across countries

Country	% of Firms	Employment (New)	Contribution to GDP	Contribution to exports
Brazil	98%	77% (S)	60.8 %	11.4%
<b>Canada</b>	<b>99.7%</b>	<b>60% (85%)</b>	--	<b>9%</b>
Chile	98.92%	80%	25%	15%
China	99%	73%	60% (M)	40-60%
Colombia	96.4%	83.5%	62%	20%
Korea	99.7%	71%	49%	42.4%
USA	99.9%	50.3% (99%)	50%	31%
Japón	99%	72% (M)	52% (M)	13.5%
México	99.8%	73.8%	52%	--
<b>Taiwan</b>	<b>96.3%</b>	<b>80%</b>	--	<b>56%</b>
UE	99%	67% (85%)	--	31%



International trade is no longer the domain of MNEs: SMEs that trade display better performance (higher productivity, greater diversification)



New opportunities for SMEs:

- ❖ Technological and regulatory developments have enabled cross-border trade to occur digitally: sunk costs of trading has significantly dropped.
- ❖ New activities (services) have become tradable: unlike manufacturing, they do not entail customs procedures or transportation costs.
- ❖ Fragmentation of production: SME can specialize in one “task”, rather than having a production line, which requires economies of scale.



# Impact of trade finance on trade flows: Evidence from OECD (2010)

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- Trade finance availability has a limited impact on exports under normal circumstances (i.e. outside crisis period): Cost of finance does not have a statistically significant impact on trade prior to the onset of the crisis.
- With the financial crisis, the effect was multiplied by three: for every 10% drop in volume of trade finance, imports went down by almost 4% (Q2 2008 – Q1 2009)
- However, a 36% of the drop of imports during the crisis was due to decline in GDP: income effect generating a drop in global demand explain the bulk of trade contraction
- Trade finance needs to be part of a broader strategy to address supply and demand-side constraints



# OECD studies on SMEs and entrepreneurship

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Scoreboard on SME  
and Entrepreneurship  
Finance  
2012, 2013, 2014

Country reviews:  
Thailand, Poland,  
Russia, Mexico, Israel

Compendium on  
policies for SME

Inclusive  
entrepreneurship  
“The Missing  
Entrepreneur”

Role of Public  
Financial Institutions  
fostering SME finance

Taxation & SME

Joint ADB-OECD  
report on Enhancing  
Financial Accessibility  
for SMEs: Lessons  
from recent crises

Internationalisation  
of SME

Entrepreneurship at  
glance



## Challenges that SMEs and entrepreneurs face:

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### Access to finance

- In Asia: how to enhance bankability
- Broaden the range of instruments

### Barriers to international markets

- Most of trade is conducted with geographically close countries
- ICT and E-commerce can help SMEs
- Secured transactions lending



# Viet Nam: GVCs and structural change

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In last 10 years Viet Nam entered GVC in clothing, furniture and electronics

Participation in GVCs is 50% (= Thailand, less than Singapore, Philippines and Malaysia)



# Impact of crisis on trade finance in Asia - joint ADB-OECD study (2013)

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About 80% of international trade is conducted in USD currency – insufficient USD strained credit ability in Asia

- The overreliance on one currency prevents ability to trade
- Interest on renminbi rose

Halt on credit channel (letters of credit)

**Response: PFI intervention in the market**

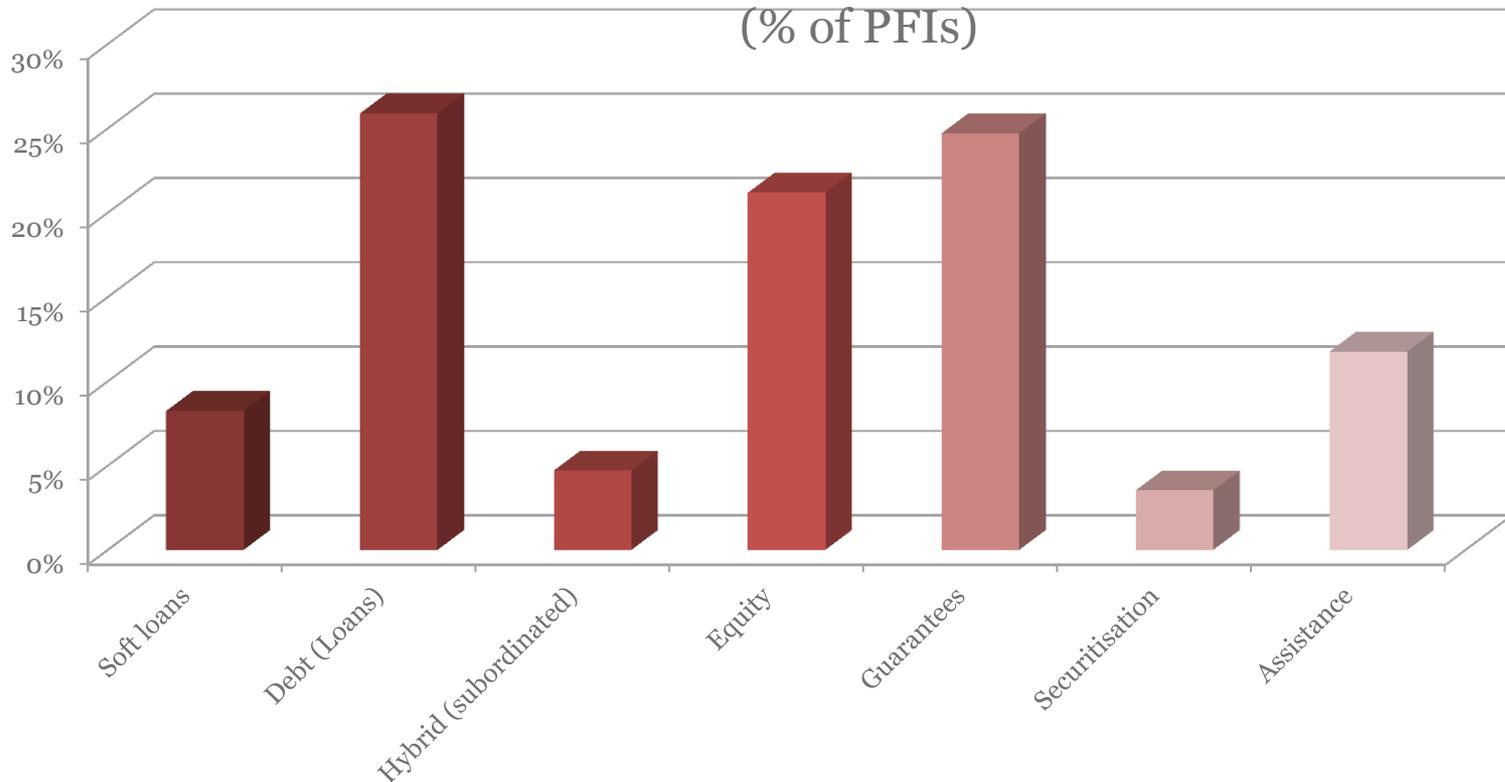
- **ADB Trade Finance Program (loans and guarantees) to support trade: USD 16.7 billion; 8300 transactions – cofinancing partners**



# Broadening the range of instruments: role of PFIs across OECD and non-OECD countries

Direct and indirect instruments offered by PFIs

(% of PFIs)



Source: The Role of PFIs in fostering SME access to finance (2013)



# The way ahead: policies

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## SME competitiveness

- Level playing field: good governance, accountability in public administration
- Non-discriminatory tax regimes

## Entrepreneurs

- Education and human resource management policies to foster an innovative and entrepreneurial culture
- Improve the match between education and labour market demand
- Facilitate hiring and training of qualified personnel



# Policy recommendations on access to finance:

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## Role for Public Financial Institutions

- Providing economic and financial additionality
- Reduce risk and transaction costs of lending to SMEs
- Encourage cofinance agreements and risk sharing with the private sector

Facilitate the development of market mechanisms to broaden the range of instruments

Need to develop an evaluation culture



# THANK YOU

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