

# BUILDING SME COMPETITIVENESS IN THE EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN

POLICY PROPOSALS BY THE PRIVATE SECTOR



UNITED NATIONS



AL\*INVEST



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AL-INVEST ([www.al-invest4.eu](http://www.al-invest4.eu)) is one of the European Commission's largest regional economic cooperation programmes in Latin America and the Caribbean. The general objective of phase IV is to contribute to social cohesion through support for capacity-building and international development of Latin American SMEs and sharing innovation, knowledge and economic relations with SMEs in Europe.

The leaders of the four consortiums of the AL-INVEST programme are: European Association of European Chambers of Commerce and Industry (EUROCHAMBRES), National Confederation of Industry (CNI) of Brazil, Nacional Financiera (NAFIN) of Mexico and the Chamber of Commerce, Services and Industry (CAINCO) of the Plurinational State of Bolivia.



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## Introduction

Micro-, small and medium-sized enterprises (SMEs) are key economic agents, and large segments of the population and of the economy depend on their activity and their performance. In countries of the European Union and of Latin America and the Caribbean, SMEs account for about 99% of all enterprises, are responsible for a great portion of employment generation (67%) and are active in a wide variety of products and services. In general, SMEs have greater weight in terms of employment than of output, indicating that their productivity levels are lower than those of large firms, and their limited participation in exports reflects their strong orientation towards the domestic market.

In both regions, governments have put in place instruments and programmes to help SMEs improve their performance, to foster their productive development, and to create a favourable business climate. Yet in many cases the outcomes have not matched expectations in terms of making significant improvements in the productivity and competitiveness of enterprises of this kind, especially in Latin America and the Caribbean.

In December 2012, in the framework of public-private dialogue between the European Union and Latin America and the Caribbean organized by AL-INVEST/EUROCHAMBRES and ECLAC, a series of interviews were conducted with some 50 business leaders and opinion shapers in countries of both regions. The consultation was intended to gather and systematize private sector views about the steps needed to improve the performance of SMEs and thereby take advantage of the opportunities inherent in the growing relationship between the two blocs, with a view in particular to the upcoming Fourth Business Summit and the First Summit of Heads of State and Government of the Community of

Latin American and Caribbean States (CELAC) and the European Union, scheduled for January 2013. This document incorporates that survey and is intended to stimulate discussion and thinking at the highest political and business echelons of the European Union and of Latin America and the Caribbean about the role of smaller-sized firms in domestic economies and the kinds of support they need in order to overcome their most important limitation, which is their productivity gap vis-à-vis larger firms. As SMEs improve their competitiveness they will be in a position to “go international”, tackling new and more complex markets and gaining access to the knowledge economy, innovation, networks, market information, etc. This in turn should encourage them to continue building their capacities and to become part of a virtuous circle.

### Box 1

#### POLICY PROPOSALS: PRIVATE SECTOR PRIORITIES

To narrow the productivity gaps and to equalize opportunities among agents of different size, the private sector recommends seeking a broad consensus among private and public institutions for moving forward in four interrelated areas of support policy: (a) innovation for strengthening production and management capacities; (b) market access; (c) integration of production and cooperation between companies; and (d) access to financing.

Taking advantage of the virtuous relationship between competitiveness and internationalization, business people in both regions are calling for action on two broad policy fronts: (a) training and awareness raising to help SMEs “go international”; and (b) promotion of production linkages and the identification of business opportunities with transnational corporations and global value chains. These measures should be reinforced by: (a) delivering information, maintaining a collaboration network of intermediate organizations from both blocs, and scouting for market opportunities and possibilities for collaboration and partnership; and (b) promoting complementarity arrangements between firms while improving the visibility and dissemination of support programmes. This may be a good time to strengthen programmes of mutual interest, with a view to building more balanced relations in benefit of all the stakeholders.

With a view to the medium term, private sector representatives propose that measures should be taken to encourage productive integration in ways that will stimulate and strengthen the linkages between SMEs and large firms. They also encourage efforts to capitalize on competitive and technological advantages in order to foster cooperation among firms in the two regions in the areas of renewable energy, clean technology and the green economy, and biotechnology.

**Source:** Survey conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the AL-INVEST programme and the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), December 2012.

The process of globalization is producing marked changes in technology, in industrial organization, and in the international division of labour. As a result, production systems are fragmenting, and many activities are being relocated to different parts of the world, while large companies spin off production to specialized SMEs. In this context, Latin American and European SMEs now face greater competition, but at the same time they are being offered previously unimagined possibilities.

The situation and performance of SMEs as well as the implementation, coordination and effectiveness of policies in support of these economic agents are very different in the European Union and in Latin America and the Caribbean. This circumstance, far from posing a barrier, opens new opportunities rooted in the historical complementarity and the cultural and economic affinity of the two blocs and the presence of counterbalancing economic cycles, which should allow construction of a deeper and more balanced relationship that offers mutual benefits. This document seeks to contribute in that direction by summarizing the key concerns and needs of the private sector with respect to the challenges facing SMEs in both regions.





## I. Challenges and opportunities for SMEs

SMEs as economic agents are being called upon to play a new and important role in boosting relations between Latin America and the Caribbean and the European Union (see box 2). These two regions are closely linked from the economic viewpoint, in particular through trade and direct investment as well as through the long-standing exchange of people and ideas. Today, the growth of Latin America and the Caribbean can be a factor for mitigating the impact of the crisis in Europe.

### Box 2 SIMILARITIES AND DIFFERENCES BETWEEN SMEs IN THE EUROPEAN UNION AND IN LATIN AMERICA AND THE CARIBBEAN

Generally speaking, the SMEs of the European Union and of Latin America and the Caribbean have many characteristics in common: they constitute a varied set of economic agents; they are heavily geared to and dependent on local markets; their productivity is lower than that of larger firms; and they play a key role in generating employment, although they have somewhat less weight in output and are little involved in international trade. Yet despite these similarities, there are some significant differences between SMEs in the two regions.

**Quantification and importance of SMEs.** In the European Union, SMEs represent 99.8% of nonfinancial businesses, numbering 20.7 million establishments. The great majority (92.2%) are microenterprises, defined as those with fewer than 10 employees. At the other extreme, the 0.2% of establishments that qualify as large companies are responsible for 32.6% of employment and 41.9% of gross value

## Box 2 (concluded)

added. These aggregate findings for the European Union are difficult to compare with the situation in Latin America and the Caribbean as a whole, given the lack of information and of consistent criteria for classifying SMEs.

**Criteria for defining SMEs.** The European Union has a uniform criterion—firms with fewer than 250 employees and an annual turnover not exceeding €50 million or an annual balance sheet total below €43 million— whereas in Latin America various definitions are used, combining in some cases sales, employees and economic sector. In the European definition, microenterprises are treated as part of the SME population, but this does not necessarily occur in Latin America, where they may instead be grouped within a specific category of micro and small enterprises (MSE). As a result, quantitative information on Latin American SMEs is often scanty and of poor quality, making it difficult to quantify the number of agents and workers or to conduct comparative studies. This is a significant concern, as lack of information and common criteria leads to complications when it comes to implementing and evaluating support policies.

**Productivity gap.** Despite the differences between agents, the business landscape in Europe reveals quite moderate productivity gaps. The productivity of a large firm is only 1.7 times greater than that of a microenterprise, 1.4 times greater than that of a small enterprise, and 1.2 times greater than that of a medium-sized enterprise. This is perhaps the most striking contrast with the situation of Latin American SMEs, and must be borne in mind in designing support policies.

**Institutionalized support.** In the European Union there is an obvious political will to recognize the key role of SMEs, as was made clear in the Lisbon Strategy for Growth and Jobs and its successor, Europa 2020. Moreover, the Small Business Act for Europe (2008) establishes a comprehensive policy framework for the SMEs of the European Union and its member states.

There is no doubt that SMEs have an important role to play in boosting the competitiveness of both regions. In general, competitiveness refers to the set of institutions, policies and factors that determine the productivity of firms, sectors and countries. It is here that the greatest differences are to be found between firms on the two sides of the Atlantic. This dimension is important, as it conditions to a large extent the possibilities for SMEs to “go international”. In fact, low productivity—and the consequently compromised competitiveness of Latin American SMEs—is leaving them far behind their European peers. Thus, the structural heterogeneity among agents in Latin America is an important consideration when it comes to designing actions and policies in support of SMEs, particularly when they are focused on internationalization.

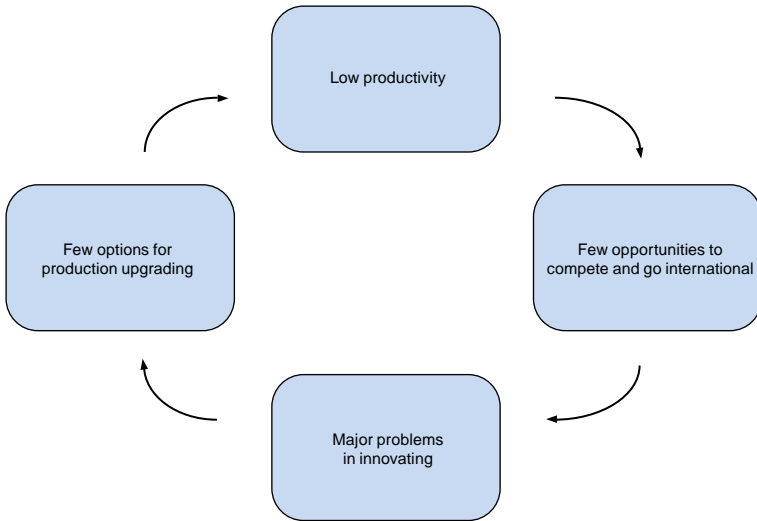
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

The internationalization of SMEs, beyond helping to generate employment and increase incomes, offers the possibility of adding value at origin and introducing improvements in production which will boost the market share of such firms, promoting more vigorous entrepreneurship. To this end it is essential for them to reduce productivity gaps by incorporating technology, innovations and knowledge into products, as well as to foster management improvements.

The environment in which SMEs now operate is subject to sharp changes and upheavals that are bound to have an impact on the way these firms develop and compete. The fast pace of scientific, technological and managerial change is having an impact on production, opening new possibilities for the use of modern technologies that are transforming ways of producing and doing business. In this ever-shifting context, the integration of SMEs into global value chains (GVC) is not an easy task: it obliges them to make changes in their processes and in their operational, production and business management, in order to seize opportunities in more competitive market. In effect, if SMEs are to participate directly or indirectly in foreign markets, interact with firms of different size and become part of GVCs they will have to overcome a number of competitive shortcomings and barriers. The great challenge, then, is to promote public and private policies and actions to break the vicious circle that now constrains the performance of SMEs, moving forward in the construction of production linkages that will include these smaller agents all the way from the pre-and post-investment stage to the sale of services, marketing, and export (see diagram 1).

Integrating SMEs into GVCs is one way of enhancing their participation in the dynamic process of fragmentation that characterizes the world economy. These firms will then be able to diversify risks, reduce their dependency on domestic markets and boost their capacity for production and export, through a programmed, rational and long-term approach to growth which will ensure that their potential exports will meet with ready international demand. As well, they can benefit from technological spillovers, through the transfer and assimilation of technology, the formation of human capital (technical and managerial) and access to standards of quality, certification and first-rate support services.

**Diagram 1**  
**THE VICIOUS CYCLE OF SME INTERNATIONALIZATION**



**Source:** Economic Commission for America and the Caribbean (ECLAC).

For this to happen it will be important to select sectors and value chains with potential for SME participation, identifying markets and products and pinpointing bottlenecks and barriers to entry. Experience shows, as a rule, that the benefits depend not only on sector characteristics, on GVCs and on the transnational corporations leading them, but also on the absorptive capacity of the host economies. In this respect, special importance attaches to human capital, the scientific and technological base, physical infrastructure, public and private support institutions, financing mechanisms, the national innovation system, and the "take-up" capacity and diversification of the productive and business structure, among other factors. It is essential to compensate for the differing weight of the parties involved—because of the asymmetry and hierarchies of inter-firm relations—in the processes of productive complementarity as well as in doing business in general, where SMEs find it easiest to deal with partners and associates of similar size, circumstances and resources.

## **II. Dialogue between the European Union and Latin America and the Caribbean: an unexploited potential?**

Historically, there has been a great degree of complementarity between the European Union and Latin America and the Caribbean, giving rise to fruitful cultural, political and economic relations. The European Union is currently the biggest direct investor, the second-ranked trading partner, and the principal source of international development cooperation for Latin America and the Caribbean. Yet the trend of these indicators has been slowing in recent years.

Moreover, there seems to be some asymmetry in the business interests of entrepreneurs in the two regions. Europeans take a broader, more global outlook and show interest in various parts of the world, with only a slight preference for the European Union itself, for Central and Eastern Europe, and for Latin America. By contrast, Latin American entrepreneurs express a more marked interest in certain specific areas—Latin America, North America and the European Union—associated with their traditional markets, as determined by geographic and cultural proximity. Despite this, Latin America and Europe rank high among the preferences and interests of entrepreneurs in both regions.

Given these considerations, it may be concluded that the private sector sees much room for improvement in relations between the two regions, particularly when it comes to actions designed to stimulate and increase business opportunities and the internationalization of SMEs from both sides of the Atlantic.

There are however some important differences between European and Latin American business views. In fact, more than half of Latin American representatives assess the relationship as good or very good, while the majority of Europeans classify it as regular, and around 12% consider it poor or very poor. Latin Americans note that relations have been centred on the larger economies and on trade issues, and that an aid-based and subsidiary mindset has prevailed. For their part, the Europeans welcome the efforts made in recent years to strengthen and promote relations between the two blocs, although they criticize the institutional, top-down nature of those relations, which leaves little room for participation by the private sector and in particular by small firms. Despite these differences both sides see an unexploited potential, stressing the need to strengthen promotion and development activities. For the two regions as a whole, then, there is a perception that, while efforts are being pursued in a formal manner through agreements, programmes and institutional arrangements, they do not reflect a common approach, especially in operational terms. The explanation would seem to lie in the profound dissimilarities among countries, especially in Latin America.

Private sector perceptions highlight the need to redefine the activities of the various stakeholders, both public and private. This could mark the beginning of a new stage that, in addition to making available financing resources, would allow companies to become more closely involved in concrete efforts to generate business opportunities, with adequate mechanisms for dissemination. In contrast to past events, at this Summit Latin America and the Caribbean will be dealing with the European Union through a single voice, that of CELAC. This new organization is putting together an agenda of integration for the region, based on a few basic agreements that reflect a strong determination to reach consensus and to promote smoother interaction between the two blocs.

In this connection, the private sector in both regions has proposed a series of support measures for SMEs that could serve to strengthen the bonds between European Union and Latin America and Caribbean. These include in particular:

- Organization of events and forums to help SMEs “go international”.
- Participation in business fairs, roundtables and missions abroad as well as incoming buyer familiarization missions.
- Assistance in the areas of technical, administrative, commercial and financial management for SMEs.
- Programmes for introduction and intensified use of information and communication technologies (ICT) in SMEs (e-business, logistics management and production systems).
- Mechanisms for the transfer and adoption of technology (design and innovation) in smaller firms.
- Training and specialized technical assistance focused on specific sectors, linkages and locations.
- Quality certification and specialized trade promotion.
- Linkages to the institutional network of support for SMEs at the local, national and international levels; in particular, assistance from the public sector and the science and technology system.
- Delivery of market information both at the individual country level and among regions.
- Promotion of entrepreneurial capacities and integration between large and small firms (clusters).





### **III. Productivity and internationalization: two simultaneous imperatives**

The pattern of productive specialization in Latin America and the Caribbean is dominated by a form of international integration that relies primarily on natural resources and commodities, produced through low-tech activities that are environmentally inefficient. Knowledge-intensive activities that incorporate greater value added have little weight in the region's industrial structure, a factor that holds back efforts to reduce the productivity gap. Overcoming this inertia will require industrial policies designed to foster the creation and development of knowledge-intensive sectors, whether in primary production, manufacturing or services. Policies to encourage exports, foreign direct investment (FDI) and the internationalization of firms have won wide acceptance in the region as a way of boosting productivity. What is needed now is to move forward with integrated policies that will bring about structural changes.

Policy formulation must go hand-in-hand with explicit considerations concerning the institutions that will implement them, and the resources to be allocated. In adopting industrial policy strategies, the countries of the region must give thought to the criteria for selecting the sectors to be promoted, the policy instruments to be made available, and the political will to put them into effect.

Bearing in mind this stylized panorama, progress is needed in two areas simultaneously. First, the glaring productivity gaps between SMEs and large companies at the national level must be narrowed through a broad range of policies and actions. Second, support must be provided more selectively to SMEs that are progressively overcoming their productivity shortcomings so as to expand their options for coping with international competition. To boost the participation of SMEs in the economy and to take advantage of their contribution to development, then, measures must be implemented in support of internationalization, without overlooking the domestic challenges inherent in the introduction of competitive improvements that will strengthen and consolidate the presence of agents of this kind in the various countries themselves. In this respect, greater economic and productive integration between Latin America and the European Union offers new elements for developing business opportunities, in which SME participation will be key for achieving these objectives.

#### **A. Levelling the playing field: reducing the productivity gap between SMEs and larger firms**

Both regions betray differences in productivity between large firms and SMEs, but the gap is greater in Latin America and the Caribbean (see table 1). The private sector has a thorough appreciation of the depth and the importance of this productivity difference between agents within countries. In fact, around 85% consider that reducing this productivity gap is an essential prerequisite for improving economic performance. The differing weight of the productivity gap is clearly recognized by the private sector in both regions, although reducing the productivity gap is much more important in the view of Latin American entrepreneurs (92% of respondents) than it is for their European peers (75%). In aggregate terms, then, improving productivity levels is essential for making SMEs sustainable.

**Table 1**  
**RELATIVE PRODUCTIVITY OF FIRMS, BY SIZE <sup>a</sup>**  
*(Percentages)*

	Microenterprises	Small firms	Medium firms	Large firms
Argentina	24	36	47	100
Brazil	10	27	40	100
Chile	3	26	46	100
Mexico	16	35	60	100
Peru	6	16	50	100
Germany	67	70	83	100
Spain	46	63	77	100
France	71	75	80	100
Italy	42	64	82	100
European Union	58	74	85	100

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

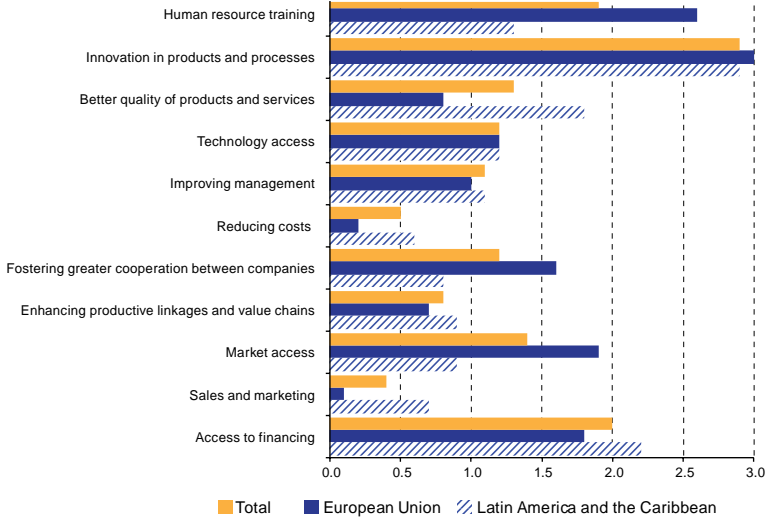
<sup>a</sup> The data refer to different years, depending on the country.

Given this situation, the private sector has identified four interrelated priority areas for support policies which would help to narrow productivity gaps and level the playing field among the different agents.

## 1. Innovation, the top priority for strengthening capacities

The private sector in both regions has identified innovation in products and processes as the highest priority. The core aspects here relate to training human resources, improving the quality of products and services, promoting access to technology, and reducing costs. Despite the broad consensus on these topics, there are some differences of emphasis by region: while Europeans place greater stress on training, Latin Americans give priority to improving the quality of products and services, reflecting perhaps the differences in product specialization, the capacity to absorb new technologies, and the relative development of the business sector in the two regions (see figure 1).

**Figure 1**  
**EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN: PRIORITY SUPPORT POLICIES TO REDUCE PRODUCTIVITY GAPS, AS VIEWED BY THE PRIVATE SECTOR**  
*(Priority indexes)*



**Source:** Survey conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the AL-INVEST programme and the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), December 2012.

**Note:** The empirical research conducted by ECLAC, the AL-INVEST programme and EUROCHAMBRES in December 2012 focused on gathering and systematizing opinions from the private sector in the European Union and in Latin America and the Caribbean, including “open” opinions and proposals as well as evaluations and selection of priorities under a rating scheme: 1 lowest priority/importance and 3 or 5 greatest priority/importance (Likert scale). The index of priorities is calculated via the following formula:  $I_{deP} = \frac{qR}{RT} + \frac{Me}{3} + \frac{qR_{Max}}{RT}$ , where  $qR$  is the number of responses processed for the item under analysis;  $RT$  is the number of total responses processed;  $Me$  is average of responses processed for the item under analysis;  $Max$  is the number of responses processed for the item under analysis with greatest priority.

In this situation, more specific measures were suggested in this area, relating to:

- Modernizing the industrial plant: enhancing the use of specific instruments to facilitate access to capital goods; promoting the use of ICT.

- Improving managerial and organizational innovation through action-training approaches, taking account as well of elements of technological management in the firm and in the support system.
- Local capacity building, human resource training to improve productive, technological, managerial, business and communication skills.
- Promoting effective training and technical assistance in quality and productivity in order to enhance competitiveness.
- Creating greater linkages between the business world and technology centres, promoting the creation and use of business incubators, science and technology parks and other approaches for adapting the supply of innovation to business needs.

## **2. The demand for market access and business opportunities**

Access to new markets is essential if SMEs are to expand their opportunities, whether in terms of promoting public procurement or gaining entry to foreign markets. In this context, the private sector has identified market access as one of the four priority support policies for levelling the playing field, ranking it only behind innovation in products and processes, access to financing and human resource training. This policy was favoured in particular by European entrepreneurs as a mechanism for improving their competitiveness, accustomed as they are to dealing with competitive markets that have been broadened in the course of building the European Union. The high priority accorded by Europeans could be very helpful for Latin American entrepreneurs seeking to achieve a more extensive and sustainable international presence over the long term.

## **3. Encouraging productive linkages and business cooperation**

Building a business involves more than merely earning a rate of return by combining factors of production. Entrepreneurs have a fundamental role to play in the progress and development of society. SMEs are crucial for promoting greater inclusion of the kind that will have a positive impact on reducing inequalities. In this context, the role of the private sector as it applies to production and to society needs to be reassessed.

It is becoming increasingly urgent for small and medium-sized entrepreneurs to develop the capacities to respond with greater flexibility to the trends now making themselves felt in the world. Generally speaking, SMEs conduct their activities in an isolated and individualistic manner. Consequently, fostering efforts to identify joint business opportunities and to integrate the activities of SMEs more thoroughly would help to improve business plans and support programmes and their use. European businesspeople place much greater importance than do their Latin American peers on support for cooperation between firms. These findings are no doubt the consequence of explicit policies adopted in Europe to encourage this kind of business collaboration and to support the entrepreneurial culture. In Latin America, although businesspeople place slightly higher priority on building linkages to global value chains, they still attach little importance to efforts to build an entrepreneurial culture of partnership and cooperation. Several specific measures are recommended for moving in this direction.

- Support the preparation of strategic sector plans as a recognized guide for developing business plans.
- Select strategic sectors, players and agents to support specific programmes (e.g. traction or anchor companies and production linkages).
- Improve competitiveness and generate production linkages through the growing incorporation of value added at origin.

#### **4. Financing, the missing piece in the puzzle**

Firms, and SMEs in particular, have significant financial needs that they must meet in order to build capacities, acquire skills, develop productive and managerial structures, and implement strategies. Financing becomes instrumental for achieving the most important objectives: levelling the playing field in order to reduce the productivity gap and making SMEs more competitive. To develop a system that takes financing fully into account requires a comprehensive vision of the financing needs of SMEs and of the constraints they face in obtaining credit. On this point, programmes of the following kinds are recommended, among other measures:

- Guarantees as backing for loans to SMEs.
- Training and the strengthening of SME capacities for accessing various forms of financing.
- Financial products differentiated by SME segment.
- Non-bank financing mechanisms.
- More flexible mechanisms of banking regulation and the introduction of incentives for lending to SMEs.
- Simplification of formalities to overcome the legal constraints obstructing SME access to credit.

## **B. Looking abroad: the mutually the virtuous cycle of internationalization and competitiveness**

For several decades now, the countries of Latin America and the Caribbean and of the European Union have been pursuing SME support policies, in the course of which they have accumulated a wealth of experience and lessons learned. With some important differences, it can be said in general that these measures have served to strengthen and consolidate smaller firms in their domestic markets. There have been problems with this process, but it can surely be taken as a point of departure, from which national authorities should now move forward in constructing a system of support for smaller firms.

Businesspeople from both regions are, generally speaking, of like mind in stressing the close links between internationalization and competitiveness. There is abundant evidence of the mutually reinforcing relationship between these two processes, whereby greater competitiveness allows SMEs to “go international” and conquer new markets, while at the same time internationalization —by exposing firms to more complex markets and giving them access to the knowledge economy, innovation, networks, market information etc.— stimulates the competitiveness of SMEs.

Firms need user-friendly mechanisms for accessing foreign markets and business opportunities abroad, as well as for developing the skills to identify potential customers or business partners as the first step in internationalization or entry into a new market. They need to engage in research and investment in order to adapt their products and services, and

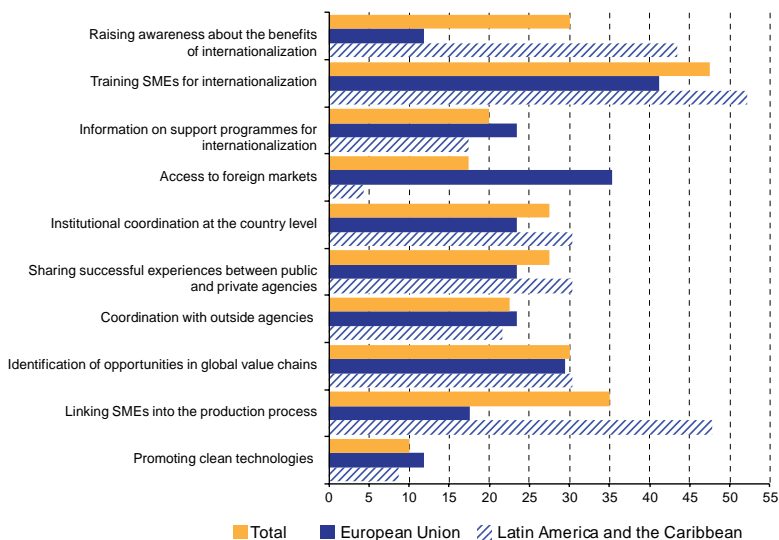


they must travel abroad to experience market characteristics at first hand, to take part in fairs and to produce promotional materials for publicizing their products and services. As well, some firms are looking for support to overcome the trade protectionism they encounter in external markets.

When the private sector is asked to identify the main obstacles to the internationalization of SMEs there is a striking similarity to the policies suggested for reducing productivity gaps among firms. The obstacle cited include the lack of information on markets and business opportunities, the low degree of integration, both vertical (in value chains) and horizontal (cooperation and partnering with their peers), the shortage of human resources for managing these processes, and problems with the availability and cost of financing for going international. Nevertheless, on this point again there are some differences of emphasis between European and Latin American entrepreneurs. The first group tend to stress human resource problems, while the second cite the absence of a cooperative culture among Latin American SMEs.

As one way of overcoming these barriers, the private sectors of both regions are agreed on some policy instruments that could promote the internationalization of SMEs. Their proposals involve two broad areas of policy: (i) training and awareness raising for SMEs in the area of internationalization; and (ii) promotion of production linkages and the identification of business opportunities with transnational corporations and global value chains (see figure 2). Despite these points of agreement, when it comes to policies supporting internationalization there are also some differences between the private sectors in the two regions. While Latin Americans assign greater priority to these policy areas, Europeans stress efforts to promote access to markets and to give greater visibility to programmes of support for internationalization. These stances highlight the relatively better positioning of European firms for dealing with the challenges of internationalization and this underlines the urgency of incorporating this dimension into the strategies of Latin American SMEs and seizing the great potential for cooperation between the two regions.

**Figure 2**  
**EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN:**  
**POLICIES FOR PROMOTING SME INTERNATIONALIZATION,**  
**AS VIEWED BY THE PRIVATE SECTOR**  
*(Percentages of responses)*



**Source:** Survey conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the AL-INVEST programme and the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), December 2012.

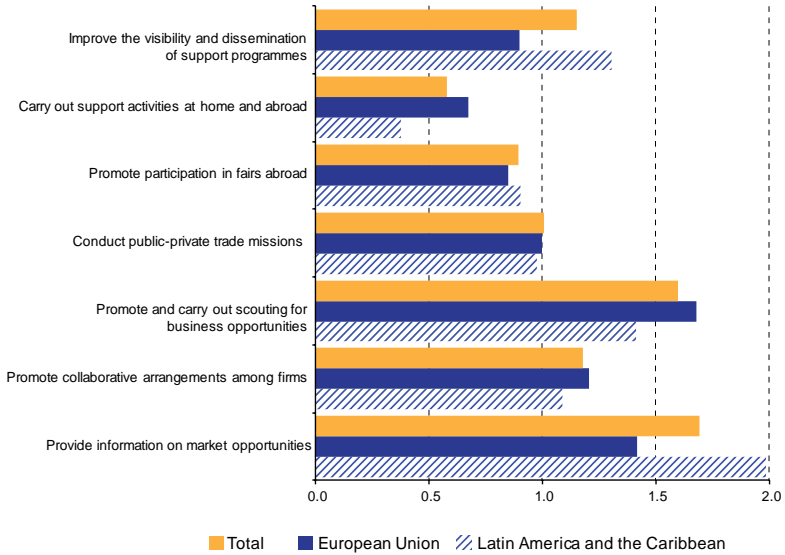
Some more specific measures are also proposed for supporting the internationalization of SMEs:

- **Develop capacities for internationalization.** This involves efforts to promote concrete and specific aspects of SME internationalization, improving administrative capacities and structures, providing training in strategic business management, and fostering an export culture and awareness.
- **Emphasize the possibilities and benefits of internationalization.** Firms must be made aware of the concrete benefits and the options involved in internationalization. This requires clear and comprehensive information on the different policies, measures, actions and support services available.

- **Support the different forms of internationalization.** Firms can progress from the most basic forms, such as export-import business, to the more sophisticated and complex ones, including partnerships, international e-commerce, production and direct investment abroad, technological agreements, and participation in global value chains.
- **Identify transnational firms and global value chains that offer good opportunities for SMEs,** preferably in those FDI flows that will create new industrial activities, improve the systemic competitiveness of the economy, increase local content, promote new production linkages and boost local business development, particularly for SMEs. Participating in global value chains led by transnational corporations can increase the volume and competitiveness of exports, offer access to new technologies and human resource training, strengthen production linkages, contribute to the development of domestic entrepreneurs and, in the most advanced cases, pave the way for progressing from an assembly platform to a manufacturing centre.

Additional, targeted actions are also recommended to help SMEs do business abroad. The highest priority is to provide useful information and to promote and conduct scouting for market opportunities and potential partnerships. To this end, it is very important to generate a continuous exchange of information on business opportunities through a network of private sector intermediate organizations in both regions. Schemes for inter-company complementarity and improving the visibility and dissemination of support programmes are highly recommended as well. Although there is broad agreement on the priority actions identified by businesspeople from both regions, Latin American representatives place greater emphasis on information about market opportunities and improving the visibility and dissemination of support programmes (see figure 3). This could reflect the fact that the private sector is not familiar with the instruments available, as many of these SME support initiatives are poorly coordinated, not well targeted, and of very limited visibility.

**Figure 3**  
**EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN:**  
**PRIORITY MEASURES TO HELP SMEs SEEK OUT AND TAKE**  
**ADVANTAGE OF BUSINESS OPPORTUNITIES,**  
**AS VIEWED BY THE PRIVATE SECTOR**  
*(Priority indexes)*



**Source:** Survey conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the AL-INVEST programme and the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), December 2012.

**Note:** The empirical research conducted by ECLAC, the AL-INVEST programme and EUROCHAMBRES in December 2012 focused on gathering and systematizing opinions from the private sector in the European Union and in Latin America and the Caribbean, including "open" opinions and proposals as well as evaluations and selection of priorities under a rating scheme: 1 lowest priority/importance and 3 or 5 greatest priority/importance (Likert scale). The index of priorities is calculated via the following formula:  $I_{deP} = \frac{qR}{RT} + \frac{Me}{3} + \frac{qRMax}{RT}$ , where  $qR$  is the number of responses processed for the item under analysis;  $RT$  is the number of total responses processed;  $Me$  is average of responses processed for the item under analysis;  $Max$  is the number of responses processed for the item under analysis with greatest priority.

To the extent they are aware of them, private sector representatives generally have a positive view of measures to foster the internationalization of SMEs, both those focused on the commercial dimension and those that seek to strengthen business competitiveness through assistance programmes, technological cooperation, innovation and capacity building. Beyond the local context, they also cite measures headed by national and international agencies, bilateral and multilateral cooperation

programmes, and integration arrangements, which include a combination of trade promotion and market intelligence plus strengthening of SME competitiveness at the micro- and meso-economic levels. Among the experiments mentioned, they highlight support mechanisms that involve working directly with firms as well as joint and coordinated activities of public and private agencies, with strong participation by local or regional governments and with continuity over time. Of particular interest here is the AL-INVEST programme, which is seen as having a positive impact on the internationalization of firms. In terms of specific experiments for fostering internationalization, representatives mentioned a wide variety. These can be grouped under five broad headings:

- Trade fairs and missions in various countries, and incoming missions.
- Country-level programmes: ProChile, ProMexico.
- Export consortia and groupings of exporters in various countries.
- Production linkages and firm-specific activities (local production clusters (APLs) in Brazil, Guatemalan Exporters' Association (Agexport), partnerships in the Andean region, Pymes Iberqualitas, Nicaraguan Producers' and Exporters' Association (APEN), business strategies).
- The AL-INVEST programme.

Private sector representatives in general have a clearly delineated view of the institutional framework for policies. In the first place, consensus is needed on the public and private institutions responsible for defining and implementing procedures. Secondly, the respective roles and responsibilities must be very clearly defined. Third, there must be a capacity to design an institutional system that will respond to the differing characteristics and levels of development in each country, particularly in Latin America. In short, if SME support policies are to be successful, public institutions and business organizations must participate jointly in their formulation, implementation, monitoring and evaluation.

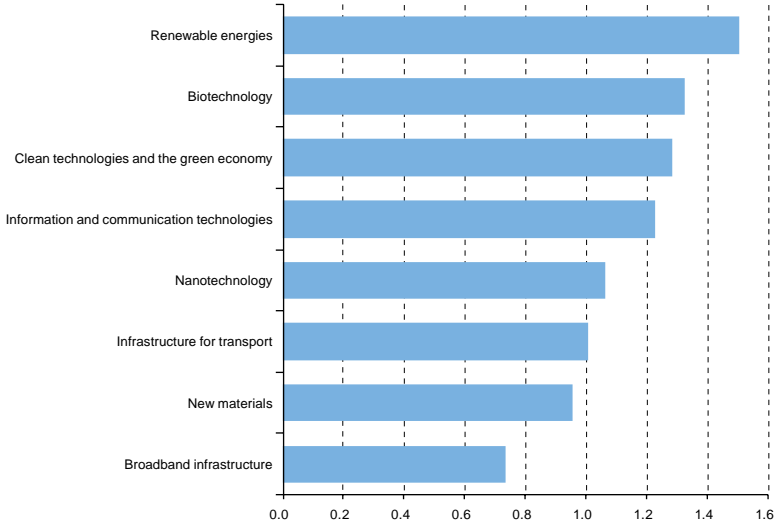
## **IV. Relations between the European Union and Latin America and the Caribbean: the future lies in cooperation and greenness**

Looking to the future, there is broad consensus in the private sector on the need for further strengthening of SME competitiveness, with a systemic vision of production. In this respect, private sector representatives welcome the possibility of invigorating and consolidating linkages between SMEs and larger firms, and promoting SME participation in value chains. To this end, businesspeople consider that the most effective actions or programmes are those that foster production linkages, supplier development, traction firms and subcontracting led by large companies. These initiatives must originate from public-private coordination, and actions, programmes and policies must be consistent over time. This process will have greater chances of success if the relationship with the large firm is established through a grouping of SMEs, as experience shows that individual SMEs will have difficulty establishing linkages with big companies.

In an innovative move, entrepreneurs are gradually abandoning the traditional concerns that have conditioned their priorities and performance. In line with global trends, productive specialization, competitive advantages and the needs of each region, they hold that the most promising areas for fostering cooperation between firms in the two regions lie in renewable energy, clean technology and the green economy, and biotechnology (see figure 4). Despite this shared view, Latin American representatives place greater emphasis on infrastructure (energy, transportation and broadband), recognizing the relatively greater needs of the region in this area. Although interests vary depending on the sectors to which the SMEs belong, the differing levels of technological innovation

in the two regions should point to specific areas of complementarity that will serve to boost the transfer of capacities and know-how between the European Union and Latin America and the Caribbean.

**Figure 4**  
**EUROPEAN UNION AND LATIN AMERICA AND THE CARIBBEAN: PRIORITY**  
**ACTIVITIES FOR FOSTERING COOPERATION BETWEEN FIRMS, AS**  
**VIEWED BY THE PRIVATE SECTOR**  
*(Priority indexes)*



**Source:** Survey conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the AL-INVEST programme and the Association of European Chambers of Commerce and Industry (EUROCHAMBRES), December 2012.

**Note:** The empirical research conducted by ECLAC, the AL-INVEST programme and EUROCHAMBRES in December 2012 focused on gathering and systematizing opinions from the private sector in the European Union and in Latin America and the Caribbean, including "open" opinions and proposals as well as evaluations and selection of priorities under a rating scheme: 1 lowest priority/importance and 3 or 5 greatest priority/importance (Likert scale). The index of priorities is calculated via the following formula:  $I_{deP} = \frac{qR}{RT} + \frac{Me}{3} + \frac{qR_{Max}}{RT}$ , where  $qR$  is the number of responses processed for the item under analysis;  $RT$  is the number of total responses processed;  $Me$  is average of responses processed for the item under analysis;  $Max$  is the number of responses processed for the item under analysis with greatest priority.

To foster this kind of business cooperation will require a system with shared financing that will facilitate contacts between firms, particularly SMEs, and partnerships with institutions, while promoting initiatives

for internationalization between the two blocs. Thus, bearing in mind private sector priorities and global trends, it is increasingly important to incorporate innovation into national support policies so as to identify strategic sectors and enable firms of both regions to seize opportunities for doing business with each other.

Lastly, there is an urgent need to address the shortfalls of information on the profile, characteristics and performance of SMEs, as well as to disseminate and give greater visibility to good practices for reducing the great asymmetry that now exists in this field between the European Union and Latin America and the Caribbean (see box 2). For the private sector, it is very important to have better quantitative information on SMEs (their numbers, their sectors, their size in terms of sales or employees, etc.), particularly in Latin America and the Caribbean. This background information is of great potential value for understanding the needs of firms and for designing and evaluating adequate support activities, programmes and policies. Of particular interest here is the technical support that the European Union could provide for compiling and processing information as well as for reconciling the various definitions of SMEs now used in Latin America and the Caribbean.

In addition to statistical data, businesspeople from both regions would like to see the creation of an observatory of best practices in support of SMEs. This would make it possible to share the broad experience accumulated in both regions with respect to SME support policies and to use that experience as the basis for coordinating strategies between the private sector and government authorities.





## V. Summary and conclusions

There is broad agreement in the private sector that the strengthening of business and production linkages between the European Union and Latin America and the Caribbean will help to boost the development of countries in both regions, and of their SMEs in particular. However, this will require a determined effort to address issues relating to the productivity gap that exists between SMEs and large companies, and which is much more significant in Latin America than in the European Union.

In this context, private sector representatives recommend moving forward in four interrelated areas of support: (a) innovation to strengthen productive and managerial capacities; (b) market access; (c) production linkages and cooperation between companies; and (d) access to financing for implementing the first three policy areas. Together with the identification of priorities, consensus is also needed on the powers and responsibilities of the public and private institutions that must oversee the definition, implementation and operation of policies. It is of the greatest importance, as well, that the institutional system should respond to each country's characteristics and level of development.

These measures should help reduce the productivity gap and thereby level the playing field for the various economic agents. Smaller firms will thereby be able to prepare themselves gradually for addressing a major challenge: the internationalization of commercial, productive, technological and management activities. They will also be able to take advantage of the mutually reinforcing relationship that exists between internationalization and competitiveness.

This is not an easy route to take, particularly for smaller firms that lack the capacities and resources needed to compete successfully in foreign markets. In this context, action is recommended in two broad policy areas for promoting the internationalization of SMEs: (a) training and awareness raising about the benefits of internationalization for SMEs; and (b) promoting production linkages and identifying business opportunities with transnational corporations and global value chains. As in the case of reducing productivity gaps, here again it is important for public and private agencies to pursue joint and coordinated actions that will ensure continuity over time and will incorporate the local, regional and territorial dimensions.

Along the same lines additional, targeted actions are recommended to help SMEs do business abroad: (a) provide information, maintain a network of intermediate organizations to exchange intelligence on business opportunities between the private sectors of both regions and conduct scouting for market opportunities and possibilities of collaboration and partnership; and (b) promote complementarity arrangements between firms and improve the visibility and dissemination of support programmes.

With a view to the longer term, private sector representatives agree on the need to strengthen the competitiveness of SMEs under a systemic approach to production. In this respect, entrepreneurs attach importance to integrating and consolidating linkages between SMEs and large companies in order to encourage SME participation in value chains. They also favour actions, programmes and policies to promote production linkages and to develop suppliers, traction firms and subcontracting mechanisms. Similarly, bearing in mind the new trends in the global economy and the productive and technological specialization of Latin America and the European Union, private sector representatives are in favour of promoting cooperation between firms of both regions in the areas of renewable energy, clean technologies and the green economy, and biotechnology, as ways of fostering the competitiveness and diversification of SME products.

Lastly, to support these initiatives and overcome the sharp information asymmetry between Latin America and the Caribbean and the European Union, progress is urgently needed in two basic dimensions. First, there is a need for useful, standardized and comparable information

of a quantitative kind on the characteristics and performance of SMEs in Latin America and the Caribbean. Second, steps are needed to improve the visibility and dissemination of SME support activities, programmes and policies. This difficult task could be facilitated by creating an observatory of good practices in support of the competitiveness and internationalization of SMEs in both regions.

In conclusion, there is clearly a mutual interest in economic cooperation programmes between the European Union and Latin America and the Caribbean. This may be the time to build on that interest to forge more balanced relations that can benefit all the stakeholders. With this in mind, it is essential to create a continuous exchange of intelligence on business opportunities through a network of intermediate organizations in the private sectors of both regions.





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