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SESSION II - "SMALL AND MEDIUM ENTERPRISES (SMES) AS DRIVERS OF PRODUCTIVE CAPACITY AND JOB CREATION"

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1. What is the sense of discussing policies? We live in a world where wealth is shifting from the West to East and south. True, growth may be a necessary but not sufficient condition for development, but many developing countries have shown important capacity to turn their condition into emerging success. Policies matter for those achievements, for making reforms happen, in particular for addressing poverty (absolute and relative). Crucial for policy making and reform would be valorising the exchange of experiences and I propose the creation of an articulated POLICY DIALOGUE, that convey around the table countries with similar concerns on SMEs policies.

2. Do we need an SME policy? Yes we need specific industrial policy for small firms; they are different from the large ones, and have different needs; while they have specific disadvantages they have specific advantages, too. There is no one-size-fits-all solution for enhancing competitiveness. This does not mean that the responsibility should lie with an "SME Ministry", rather at a level that can guarantee the multisectoral nature of strategies for SMEs development. For example it could be located within the office of the Prime Minister.

3. What do we mean by SMEs? "SMEs" captures different realities, and are not "like large firms but smaller"; a typology could help and it should be based not that much on firms size, but rather on the role that the different type of small firms play in the productive system, for example:

- Small artisans serving narrow, fragmented local markets, using "universal" (un-specialised) production equipment / machinery to satisfy a small but varying local demand. The entrepreneur and workers have mainly on-the-job training and little or no formal schooling. These firms may specialise and in certain cases adjust their product to sophisticated high demand but are threatened by the growing markets integration and by the competition from more industrialised processes, offering similar products at lower prices.

- Small, industrialised firms with relatively good machines and trained human assets, typically involved in subcontracting, who are at a stage where they are competitive and do not produce differently than large firms when it comes to the specific products they concentrate upon. If these firms want to evolve they need to diversify their customers and become more independent so to further develop products and technologies.

- Small firms that cooperate with each other within clusters of specialised firms. They sell final products or components that they know how to permanently adjust and update thanks to high internal assets. These firms are particularly competitive, but they have to deal with a permanent need to innovate or simply to grow into medium sized firms specialised in the production of a product that was capable to succeed and that they now want to produce in larger scale.

4. What type of measures? They vary accordingly with the different types of firms. However, it could be helpful to distinguish measures according to the impact they have. Namely,

- Policy to improve the general environment for all firms, not only the small ones

    1. Education and IT = “alphabetisation” for entrepreneurs and staff, so to facilitate inter-firms relations

    2. Public services and infrastructure, including financing for them from tax revenue. A reform of fiscal policies is required given the average low level of fiscal revenue. In that respect = first maximise revenues from large businesses, including informal ones, instead of strangling SMEs that are more difficult to make emerge from the informal.

- Policy that address a different unit of intervention, not the individual firm, but rather the whole group of firms related by the fact that they concur in producing the same or similar final product.

    1. Loan guarantees consortia to help reduce the rate of interest to SME, increase their volume of credit and improve trust.

    2. Real services that provide firms with market trends information, information about sub-contractors, assessment of quality of products, etc. The point here is not to provide subsidies but rather the information that subsides would be presumed to finance.

    3. Specialised information for a specific group of firms with similar concerns.

- Policy to improve the local environment where small firms operate. For example, most young people in Africa live in rural areas, where 53% are in non-farm activities. What is the government doing for rural areas, or for distressed urban areas?

5. Doubts have been expressed about entrepreneurship training if separated from technical education and training. Even more on policy to pick the winners. While they may have a demonstration effect, they overlook the fact that the success of small firms is not only and not mainly to help them become large firms, but rather to strengthen the quality of the industrial fabrics that provide inputs to small firms and require outputs from them. Often, that fabric is the potential supplier of new jobs more than fewer successful entrepreneurial cases.