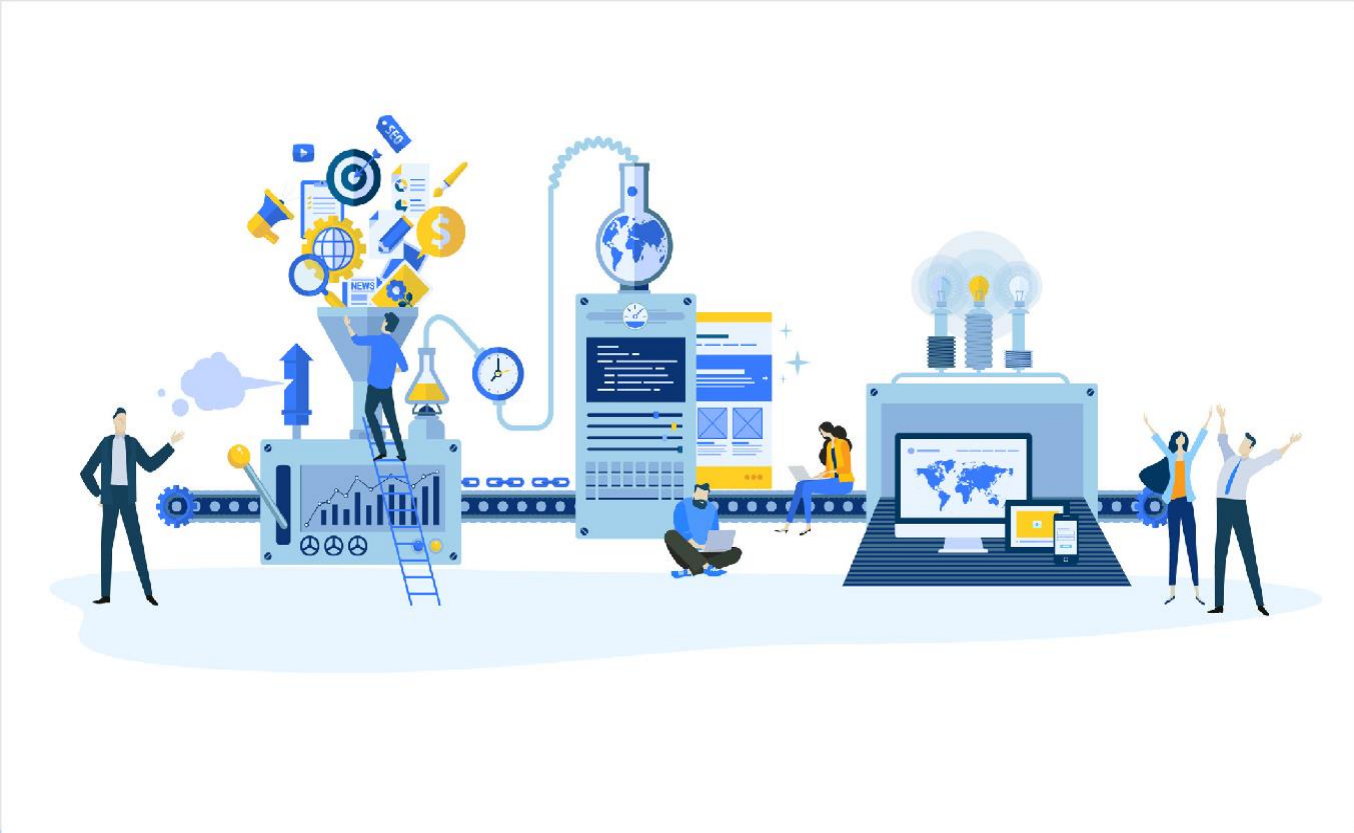
Increasing Internationalization of Small and Medium-Sized Enterprises (SMEs) in OIC Member Countries



COMCEC 19th Meeting Trade Working Group, October 4th 2022

NAZİRE NERGİZ DİNÇER

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Case Studies

1. Malaysia

2. Morocco

3. Pakistan

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1. Malaysia

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Background

Historical Developments	• Since 1957, strong and sustained growth (6.5 % per year), except crisis • Remarkable progress in social and economic development. • Real GDP per capita has increased ninefold from $1,200 in the early 1960s to $10,400.
Economic performance	• One of the most open economies in the world: average trade balance ratio of over 130 percent in the last decade. • Expected to move from middle-income to high-income status by 2024
Top Export Products	• Electrical and electronic products (40 %), palm oil and palm oil-based products (10 %), refined petroleum products (5 %), and liquefied natural gas (3.5 %).
Top Import Products	• Intermediate goods: 55.1 %, • Capital goods: 11 % • Consumer goods: 8.6 %

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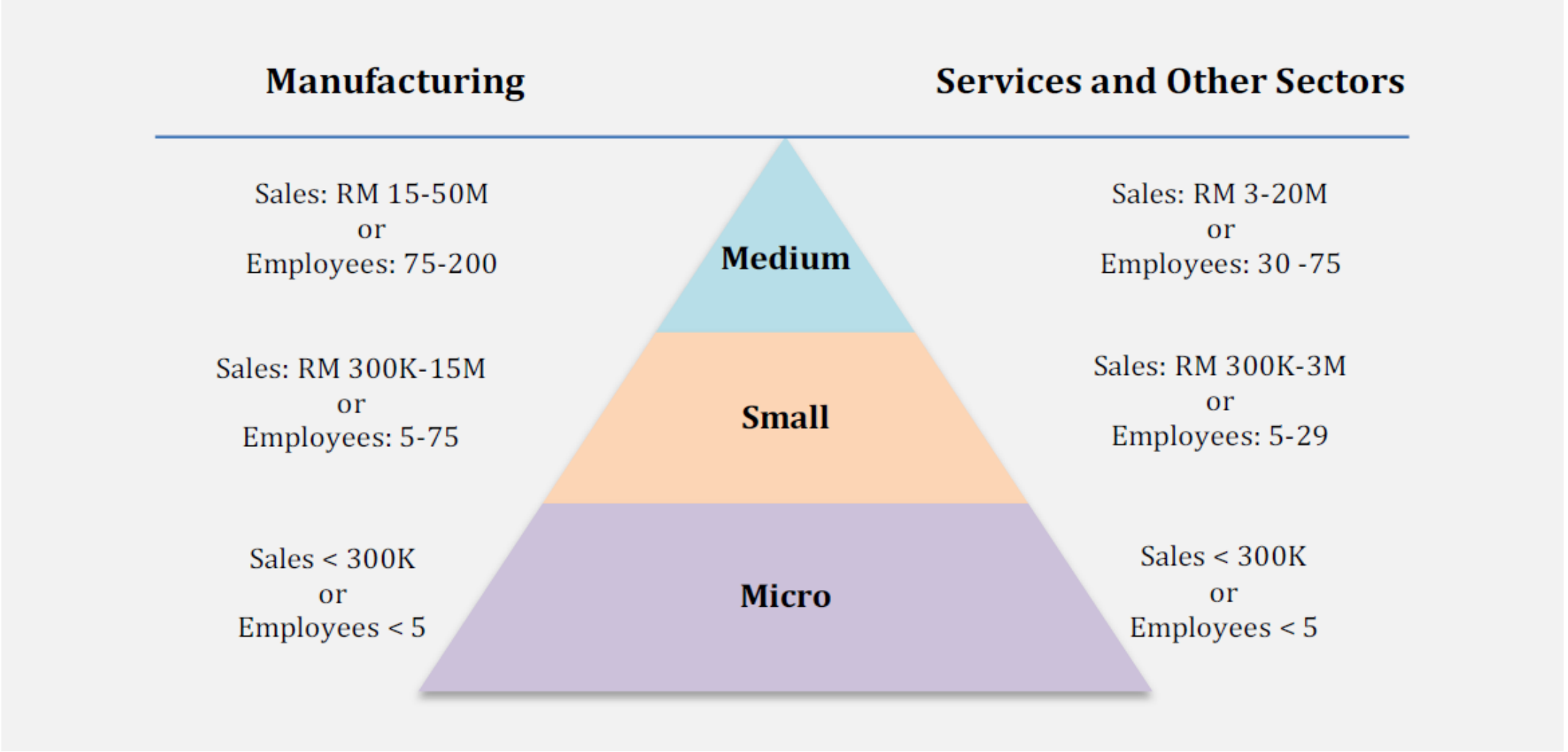
An Overview of the SME Definition of Malaysia

Qualifying Criteria	Type of Establishment	Shareholding Structure
• ***Manufacturing:*** Sales turnover < RM 50 million or full-time employee >75 workers • ***Services and other sectors:*** *Sales turnover<RM 20 million or full-time employees <75 workers*	• ***Established in Malaysia*** *u*nder the companies Act 1965 or • ***Registered*** under the Registration of Business Act (1956) or Limited Liability Partnership (LLP) Act 2012 or • ***Registered*** under respective authorities or district offices in Sabah or Sarawak; or • ***Registered*** under respective statutory bodies for professional service providers	• ***Not publicly listed*** on the main board of Malaysia or in other countries • ***Non subsidiaries*** of large firms, MNCs, GLCs, Syarikat Menteri Kewangan Diperbadankan and State-owned enterprises, • ***Not a subsidiary*** of a publicly listed company on the main board in Malaysia or in other countries.

Source: *SME Corporation Malaysia*

Sectoral Threshold Qualifying Criteria of SMEs in Malaysia

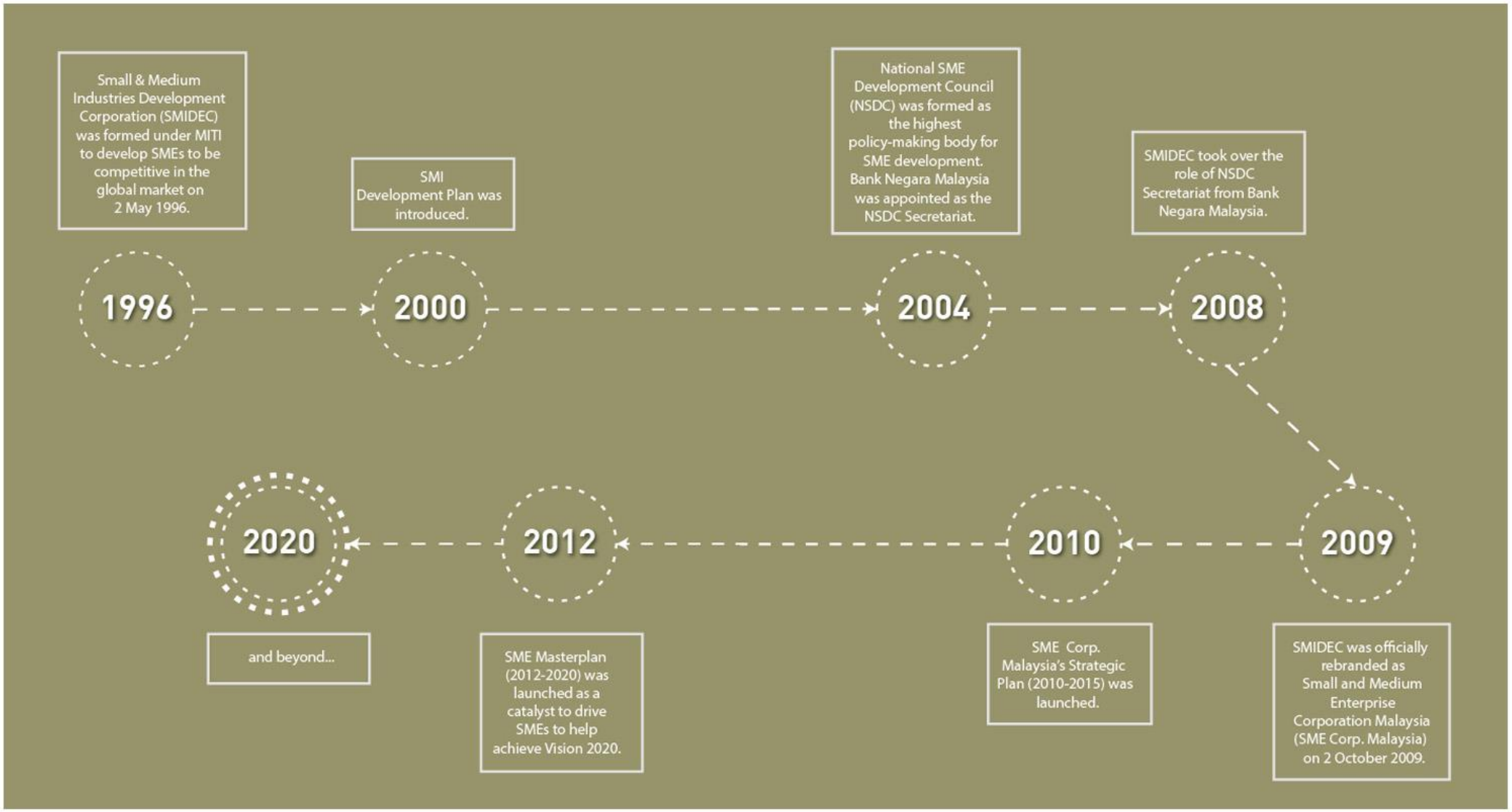


Sectoral Contribution of MSMEs' to Exports of Goods and Services

	Total	Manufacturing	Services	Agriculture
2017	17.3	8.3	8.9	0.3
2018	17.3	8.4	8.7	0.2
2019	17.9	8.6	9.1	0.2
2020	13.5	9.4	3.9	0.3
2021	11.7	9	2.5	0.3

Source: *SME Corporation Malaysia.*

Institutional Framework



Major Institutions on SME Internationalization

SME Corporation of Malaysia

MATRADE

Malaysia External Trade Development Corporation

CGC

Credit Guarantee Corporation Malaysia Berhad

SME Bank

MEDAC

Ministry of Enterprise Development and Cooperatives

CEDAR

Center for Entrepreneur Development and Research Sdn Bhd

Major Support Programs offered by SME Corp Malaysia

Glocal Linkages SME Program (GLOSMEP)

The MatchMe platform is one of the main components of GLOSMEP

The SME Go Global Program

The National Mark of Malaysian Brand

One Stop Entrepreneurship Center @SME Hub

SME Hub

Major Support Programs

- SME Corp. Malaysia and MATRADE: Galakan Export Bumiputera
- SME Bank, MEDAC and MATRADE: Business Export
- Teraju and MATRADE: Bumiputera Initiative for GlobalizationProgram (BEP)
- MATRADE:
  - The Medium-Tier Enterprise Development Program (MTCDP)
  - The Bumiputera, Women, Youth and Exporters Development Program
  - The SME Exporter Development Prrogram
  - The E-Trade Program
  - the Market Development Grant (MDG)
  - The Services Export Fund (SEF)
  - The Business Information Center (BIC)
  - Integrated Center for Export (ICE)
  - Myexport
- SME Bank: Vendor Capacity & Capability Development Program (PPKV)
- CGC: imSME

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Challenges

- High-Level Task Force and the NESDC
- 15 ministries & more than 60 agencies supporting SMEs
- SMEs do not compete on a level playing field in the international market.
- Cooperative movement.
- Survey of SME Corporation Malaysia:
  - export access, trade documentation, product packaging, and international marketing.
  - challenges: insufficient information about the target market (42.3 percent), higher operating costs (37.4 percent), and insufficient knowledge about competitors and distribution channels (33.1 percent).

Lessons Learnt

- Strategic priority:
  - Council for SME Development (NESDC),
  - The SME Master Plan 2012-2020,
  - Annual growth target for SME exports.
- SCORE rating by SME Corporation Malaysia.
- ERAT rating by MATRADE to test export readiness.
- Many specialized programs.
- Impact assessment for each program, but not publicly available.
- Online application systems and services for SMEs.

2. Morocco

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Background

Historical Developments	• Undeniable progress since the early 2000s. • Strong economic growth in the 2000s. • Sharp decline in the national poverty rate, from 25.1 % to 9.5 % between 2001 and 2015 in rural.
Economic performance	• High levels of public investment, government spending, and domestic demand: unsustainable and has not led to high growth or job creation.
Top Export Products	• Automobiles (11.8 %), • Mixed mineral or chemical fertilizers (10.6 %) • Insulated wire (10.6 %).
Top Import Products	• Equipment goods (25.9 %) • Consumer goods (23 %) • Semi-finished products (21.3 %)

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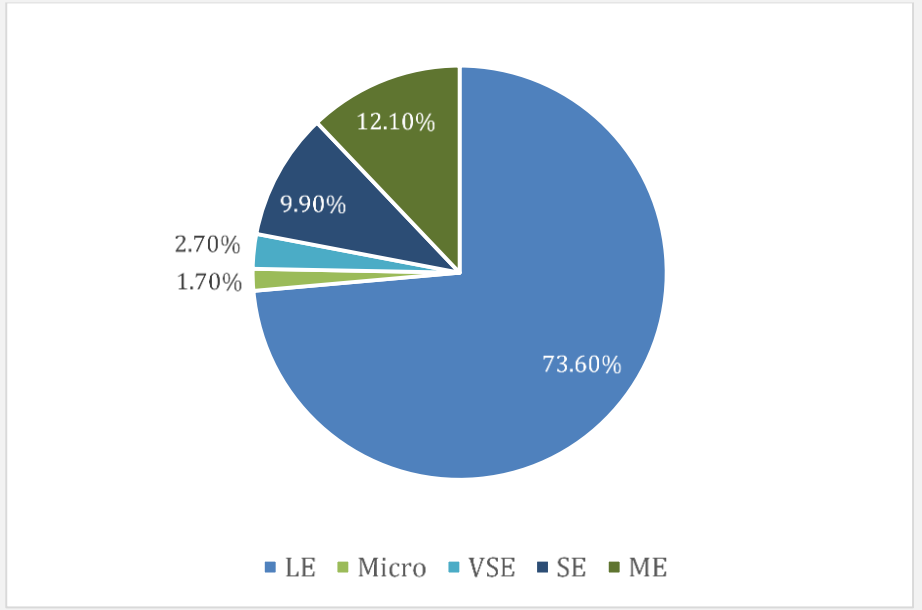
An Overview of the SME Definition of Morocco

Category	Turnover (KRW)
Micro	Annual turnover ≤ MAD 10 m
Small and Medium	Annual turnover ≤ MAD 200 m

Source: *OECD (2018)*

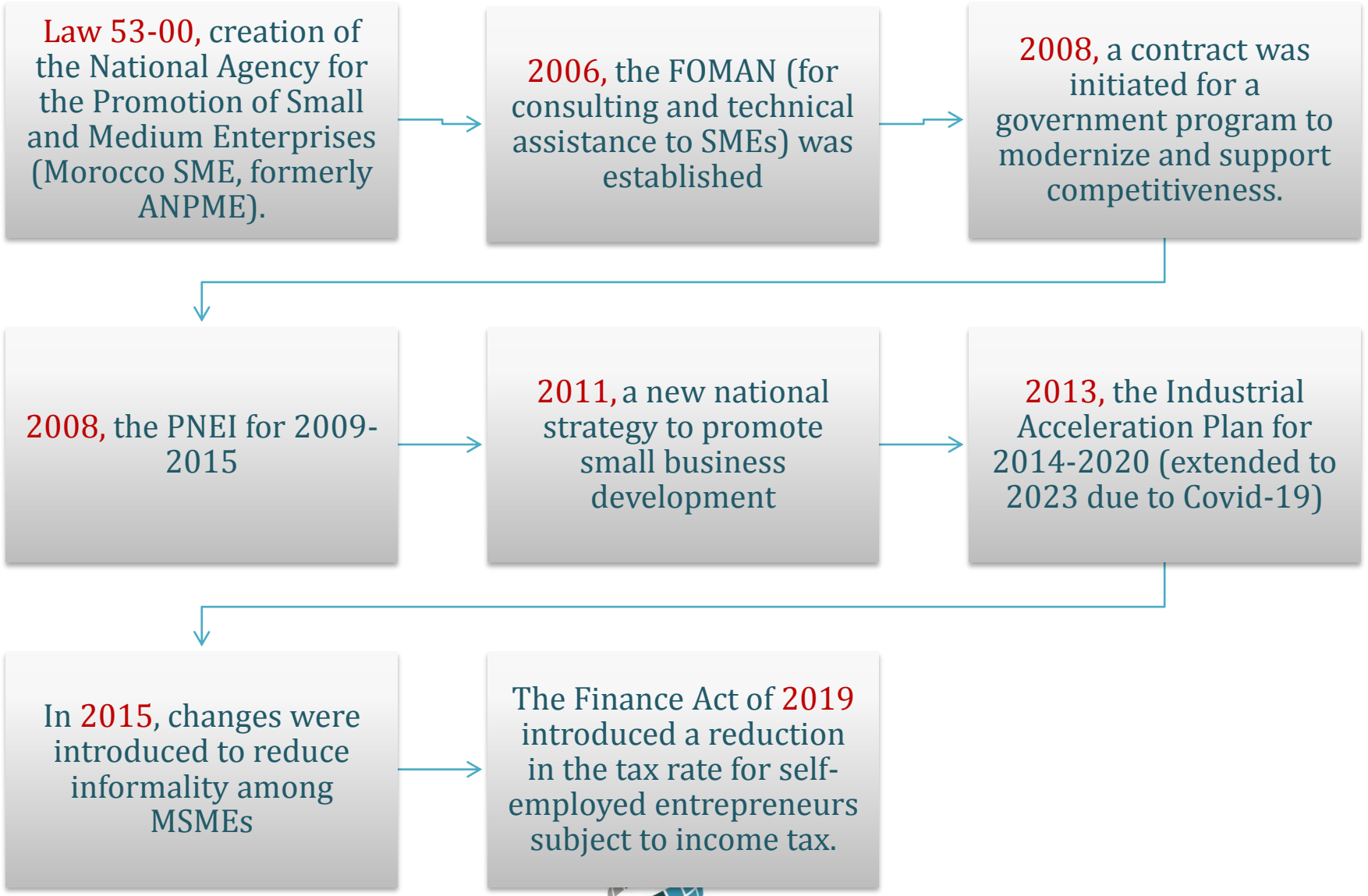
Breakdown of Cumulative Export Turnover by Category, 2019



Note: *Authors' elaboration.*

Data Source: *Bank Al-Maghrib (2021).*

Timeline of the Institutional Framework



Major Institutions on SME Internationalization

The National Agency for the Promotion of SMEs (Maroc PME - former ANPME)

The Moroccan Investment and Export Development Agency (AMDIE, formerly Maroc Export)

The National Confederation of Moroccan Enterprises (CGEM)

The National Committee for the Business Environment (CNEA)

Major Support Programs

- **ANPME:** Various programs for MSMEs to improve their competitiveness. No direct support for the internationalization of SMEs.
- **TATWIR/ STARTUP** targets start-ups with innovative industrial projects or services with high added value for industry. ANPME provides an integrated end-to-end support offering for startup industrialization projects.
- The **NAWAT P**rogram: Long-term support for very small enterprises.
- The **ISTITMAR:** For SMEs of any size with a development project of large scale.
- The **MOWAKABA:** supports companies in their global transformation process by implementing complementary offers of expertise and technical assistance, digital transformation, and support for creativity and co-development projects.
- **Skills Transfer Platform (PTC)**,support companies and service providers to benefit from real commercial visibility, access new markets and offer more attractive services to their clients

Challenges

- No program directly addressing SME internationalization.
- AMDIE supports exports in the country but not a specific program for SMEs.
- The MSMEs in Morocco are mainly micro-enterprises.
- Not enough promotion on support programs.
- Support programs only for manufacturing sector.
- Problematic for distant SMEs to reach Maroc PME.

Lessons Learnt

- Cooperatives export together
- Multinationals support the capacity of their value chain.

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3. Pakistan

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Background

Historical Developments	• Between 2001 and 2007, the investment ratio increased by 17.2 percent of GDP and rose to 23.0%. • In the post-2007 period, growth declined due to the unrest in Pakistan, the global financial crisis, and floods, and inflation increased.
Economic performance	• Fiscal contraction, exchange rate pressures, inflation, and shortages in the energy sector led to an increase in economic uncertainty in Pakistan
Top Export Products	• The textile sector (60.9 %) • Food (17.4 %) • Other manufactured products (13.7 %)
Top Import Products	• Petroleum products (20.1 %) • Engineering products (18 %) • Agriculture and chemicals (16.5 %) • Food (14.8 %), and textiles (5.7 %)

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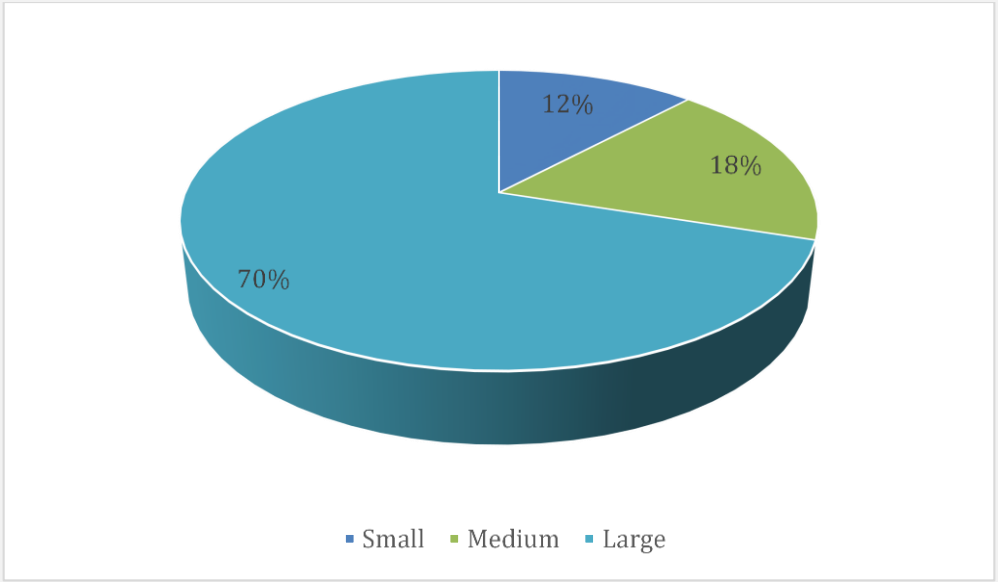
An Overview of the SME Definition of Pakistan

Category	*Turnover (PKR)*
Small Enterprises	*Up to PKR 150 million*
Medium Enterprises	*Above PKR 150 million to PKR 800 million*
Start-up	*A small enterprise or medium enterprise up to 5 years old will be considered as Start-up SE or Start-up ME*

Source: *SMEDA, SME Policy 2021.*

Share of SMEs in Export, 2020



Note: *Authors' elaboration.*

Data Source: Source: *SMEDA and RRI&A, 2022.*

Institutional Framework

- Since 1998, an institutional structure was aimed for the development of SMEs.
- The National SME Policy 2021: the necessary strategies and studies for the development and growth of SMEs
- The SMEDA and the National Coordination Committee: established to implement the National SME Policy 2021.
- Basic framework:
  - (1) Macro policy and regulatory environment
  - (2) Supply side challenges
  - (3) Demand side challenges
  - (4) Institutional mechanisms

Major Institutions on SME Internationalization

SMEDA

Small and Medium Enterprises Development Authority

TDAP

The Trade Development Authority

FBR

Federal Board of Revenue

SBP

State Bank of Pakistan

Major Support Programs

- TDAP:
  - organizes domestic and international trade fairs and exhibitions for exporters,
  - organizes trade delegations, provides exporters with access to the international market,
  - product and market research,
  - organizes training and seminars,
  - cooperates with international economic and trade organizations.
- The MB 2001: reduce or exempt taxes for the manufacture of finished products to be exported and for commercial products to be imported from abroad.
- DTRE scheme: companies do not pay taxes during a certain period if they undertake to use the inputs for the export goods.
- Export-oriented units (EOUs): all inputs of these companies, including capital goods, are exempt from tax.
- EFS -2021: the simplified single window system for exporters to access these applications.

Challenges

- SMEs' access to finance: a major hurdle.
- The lack of high-quality human resources.
- The lack of developed IT support system.

Lessons Learnt

- An institutional structure for the development of SMEs.
- An environment of trust is necessary.

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Thank You…

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