



COMCEC

**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**

Proceedings of the 19th Meeting of the
COMCEC Trade Working Group

“Increasing Internationalization of SMEs in the OIC Member Countries ”



COMCEC COORDINATION OFFICE

October 2022

PROCEEDINGS OF THE 19TH MEETING OF THE
COMCEC TRADE WORKING GROUP

ON

“Increasing Internationalization of SMEs in the OIC Member Countries”

(October 4th, 2022, Virtual Meeting)

(2nd Meeting – Final Draft of Research Report and Policy Recommendations)

COMCEC COORDINATION OFFICE

October 2022

For further information please contact:

Mr. Yunus KAYIŞ

Assistant Expert

Ms. Mine DEMİR

Assistant Expert

COMCEC Coordination Office

Necatibey Caddesi No: 110/A

06100 Yüce-tepe

Ankara/TURKEY

Phone : 90 312 294 57 04

Fax : 90 312 294 57 77

Web : www.comcec.org

e-mail : trade@comcec.org

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1. Introduction

The 19th Meeting of the COMCEC Trade Working Group was held on October 4th, 2022 in a virtual-only with the theme of “Increasing Internationalization of SMEs in the OIC Member Countries”. The representatives of 21 Member States, which have notified their focal points for the Trade Working Group, attended the Meeting.

(The Agenda and Program of the Meeting are attached as Annex-I and Annex-II)

The meeting was further attended by the representatives of the SESRIC, ICCIA, ITFC and COMCEC Coordination Office (CCO).

(The List of Participants of the Meeting is attached as Annex-III)

2. Opening Session

The Meeting started with a recitation from the Holy Quran.

At the outset, H.E. Selçuk KOÇ, Deputy Director General of the COMCEC Coordination Office, welcomed all participants to 19th Meeting of the COMCEC Trade Working Group (TWG). Mr. KOÇ highlighted that COMCEC is the main multilateral economic and commercial cooperation platform of the Islamic World and a central forum to address the common development challenges of the OIC Member Countries.

He stated that Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs have great importance, impacts and functions on national and international social, financial, economic environment including investment, productivity, employment, income distribution and intra-region and international trade.

Underlining that in spite of their significant contributions to the national economies today, SMEs seem to be underrepresented in international economic environment, He enumerated the reasons behind this under-representations of SMEs such as lack of relevant skills and knowledge about international markets, non-tariff barriers, complex customs, other border control procedures and national and international regulations as well as limited access to trade finance.

After then, he underlined also that although a great number of efforts and programs to increase the SMEs internationalization at national, regional and international levels is under way, in order to enhance internationalization of SMEs all stakeholders are required to work more efficiently to reap the full benefits from globalization.

Mr. KOÇ expressed that SMEs still represent a minor share of exports and face barriers to entry into international markets even though Governments in OIC Member States have also been actively promoting the participation of their SMEs into not only international trade but also intra-regional trade.

He informed the participants that in the 18th meeting of TWG the preliminary findings of the first draft of the report titled “Increasing the Internationalization of SMEs in the OIC Member Countries” have already been discussed. As a sequel of the 18th Meeting, 19th Meeting of the COMCEC TWG discusses the final version of the report to try to benefit from the experiences

of our member countries, International Institutions and the private sector. Accordingly, Meeting will try to formulate policy recommendations to be implemented by our member countries.

Mr. KOÇ highlighted that the policy recommendations/ policy guide will significantly help the Member Countries in their efforts for SME internationalization. Enhancing the cooperation among our countries in this field through sharing experiences and good practices would significantly contribute to the realization of related output areas of the COMCEC Strategy.

He ended his opening remarks by wishing all participants fruitful discussions and deliberations during the Meeting.

Later, Ms. Elçin EDİS, Head of Department from Directorate General for International Agreements and European Union, the Ministry of Trade of the Republic of Türkiye, moderated the Sessions during the Meeting. In her opening speech, she welcomed the all participants 19th Meeting of TWG and gave a brief a number of information on SMEs and their internationalization process. Then, Ms. EDİS briefly informed the attendees of the agenda and program of the Meeting.

3. Overview Presentation of the Final Draft of Research Report

3.1. General Overview of the Report

Prof. Ayça Tekin-Koru firstly indicated that this study aims to (i) provide a basic guidance in terms of principles and recommended practices; (ii) share information on good practices & assessments of the current similar programs and practices; (iii) provide a reference practical instrument towards establishing effective SMEs internationalization programs and (iv) present a baseline for national policy options for the implementation of SMEs internationalization programs.

Ms. Tekin-Koru also stated that the methodology used in the report involves comprehensive research and review of SME internationalization literature followed by collection of data and its analysis. The data are collected from internet sources and through the OIC Member States survey. The report also employs in-depth case study analysis that are the product of discussions with public and private sector representatives as well as desk reviews and field visits. Once all the information is collected and analyzed accurately, there was an evaluation and synthesis stage where a rich set of policy recommendations are formulated.

Afterwards, Prof. Tekin-Koru presented a general overview of the study followed by a set of policy recommendation that aims to increase the internationalization of SMEs in OIC Member States.

In her presentation, Ms. Tekin-Koru expressed that SME internationalization has been in the agenda of developing and developed countries alike due to their importance in the economy. SMEs account for about 90% of all firms and for about 50% of all jobs. There are 365-445 million MSMEs in developing countries today and 600 million jobs will be needed by 2030 to absorb the growing workforce in these countries. In emerging economies, most formal jobs are created by SMEs, which is 7 out of 10 jobs. Last but not least, SMEs are one of the key players in achieving the 17 sustainable development goals of the United Nations.

She added that globalization, the rise of the global middle class, digitization, and the certainty of uncertainty are among the main dynamics of recent times that shape the challenges and

opportunities of SME internationalization. She also stated that in this study, country-level desk reviews and field visits are conducted to learn from the countries' experiences in SME internationalization. Desk review countries are Nigeria, Pakistan, Poland, South Korea and Vietnam, whereas field visit countries are Malaysia, Morocco and Spain.

After general overview, indicating that a rich policy design for successful SME internationalization in OIC Member States is devised Ms. Tekin-Koru highlighted that there are 6 principles that every country should possess followed by 11 principles for the development stage, 9 principles for the implementation stage and 2 principles for the assessment stage of SME internationalization in the study. In the light of these principles, a large number of policy recommendations surfaced in the study.

3.2. Main Findings of Online Survey

Expressing that in order to obtain information on the barriers to SME internalization, the measures to overcome these barriers, and their impact, a survey of OIC Member States was conducted, Prof. Seyit Mümin CILASUN presented the methodology and the results of the survey in this part.

Mr. CILASUN stated that as the measures are designed by government institutions and used by firms, different questionnaires for firms and government institutions were prepared. In this way, how the firms and institutions perceive the obstacles and how the measures affect the companies' exports were detected.

He underlined that the survey results suggest most export firms use business partners to reach target markets. International market information portals, business websites, and business associations are the other most frequently used channels. An important finding for exporters is the low percentage of government channels. When exporters and non-exporters are compared, it is found that the ranking of channels is different. In this regard, the creation of platforms for the exchange of experiences between exporters and non-exporters is an important policy implication.

He added that there is a large difference between exporters and non-exporters in their perception of internal barriers. The average score of exporters is significantly higher than non-exporters which states that barriers became higher with the realization of exporting activity. In terms of main barriers, for both exporter and non-exporter firms, financial barriers are the most important barriers. However, while information barriers are the second most important barrier for exporters, product and price barriers are the second most important barrier for non-exporters. This is to be expected since exporters have already achieved the quality of their products required for export. The third important main barrier for exporters is distribution and logistics barriers, and the sub-barrier is excessive transportation and insurance costs. On the other hand, the third important main barrier for non-exporters is information barriers. Unlike the internal barriers, the perception of external barriers is similar for exporters and non-exporters. For both groups of firms, government barriers within their own country are the most important barriers. In this regard, policies to support exports are particularly important for both exporting and non-exporting firms. The second main important barrier is tariff and non-tariff barriers. In particular, the "high cost of customs administration in host countries" is the second most important sub-barrier for non-exporters and the third most important sub-barrier for exporters.

Mr. CILASUN also expressed that the participating firms indicated that the most important barrier is the lack of funding. Malaysia, Benin, and Türkiye have financial systems that offer many alternative instruments to firms. Iraq, Burkina Faso, and Guinea, on the other hand, need to improve the number of available financial instruments. Complicated procedures and high interest rates are the obstacles mentioned by most companies. In addition, the requirement for collateral is also an inhibiting factor. Easing borrowing procedures, providing credit at low cost, especially through public banks, and using credit guarantee funds (CGFs) could be immediate and effective policy measures to overcome these obstacles. The survey also asks about the key outcomes of the monitoring and/or evaluation processes. More than half of the institutions indicated that the program needs to be better publicized. This is consistent with responses from companies that indicated they were unaware of the programs. Another finding from the monitoring/evaluation of the programs is the need to simplify the application process. This was also cited by firms as an important barrier to exporting.

At the end of his presentation, Prof. Dr. CILASUN indicated that participants were also asked about the available SME financing measures in their countries. The results suggest that SME financial literacy policies are present in all countries. The second most popular policy is the creation of specialized financial institutions for SMEs and is available in 10 different countries. This is important because the participating companies indicated this as the most important policy. We also rank countries by the number of SME finance measures available. Malaysia and Bangladesh are the most successful countries; all measures are available in these countries. Türkiye, Burkina Faso, and Palestine need to increase the number of SME financing measures available.

3.3. Selected Case Studies: Malaysia, Morocco, and Pakistan

Prof. Nazire Nergiz Dinçer presented the cases of Malaysia, Morocco and Pakistan among the eight countries that were researched in detail in this study.

Malaysia

Prof. Nazire Nergiz Dinçer firstly shared information about historical developments and the economic performance of Malaysia.

After Ms. Dinçer stated that the original 2005 definition of MSMEs was renewed in 2013 due to changes in inflation, structural changes, and changing business trends. Malaysia's MSME definition covers all sectors, i.e., services, manufacturing, agriculture, construction, and mining and quarrying, based on the threshold, type of establishment, and equity structure. Malaysia has different thresholds for manufacturing and services, as well as other sectors, based on either turnover or the number of full-time employees of firms. A detailed definition of the categories, namely micro, small, and medium enterprises.

She added that in Malaysia, agricultural sector exports accounted for 0.3 percent of total MSME exports in 2021. MSME exports from the services sector declined significantly in 2020 and 2021, mainly due to the impact of the pandemics on travel. The contribution of MSME exports to total exports in 2021 was 11.7 percent. Manufacturing contributed 9.0 percent, while the contributions of services and agriculture were limited to 2.5 percent and 0.3 percent, respectively.

She explained that the institutional history of SMEs dates back to 1996, when a specialized agency called the SMIDEC was established under the MITI. The goal of SMIDEC was to

contribute to the development of SMEs in manufacturing and related services and to help them compete in the global market. In 2005, the services sector was added to SMIDEC's focus. Then, the National Council for SME Development (NSDC) was established in 2004 as the highest policy body. The secretariat of the NSDC was run by the Central Bank. The Council pursued four objectives: (i) formulating policies for SME development in Malaysia, (ii) coordinating SME programs implemented by relevant ministries and agencies, (iii) promoting partnerships with the private sector, and (iv) ensuring effective implementation of overall SME development programs in the country. The NSDC's major initiatives have been to improve SME access to finance, provide SME advisory, information, training, and marketing services, and create a comprehensive SME database.

Expressing that the major institutions of SME internationalization in Malaysia are: SME Corporation of Malaysia, Malaysian External Trade Development Corporation, Credit Guarantee Corporation Malaysia Berhad, SME Bank, Ministry of Enterprise Development and Cooperatives and Center for Entrepreneur Development and Research Sdn Bhd., Prof. Dinçer briefed the participants about the major support programs offered by above mentioned institutions.

Morocco

In the second part of her presentation, Prof. Nazire Nergiz Dinçer informed the participants about historical developments and the economic performance of Morocco.

Underlining the importance of MSMEs on the Moroccan economy Ms. DİNÇER stated that in 2018, 90 percent of the total number of active enterprises were SMEs. While SMEs accounted for 50 percent of total employment, their contribution to GDP and exports was limited to 20 percent and 30 percent, respectively (The World Bank, 2018). The African Development Bank Group (2021) estimates that MSMEs (both formal and informal) contribute to 35.7 percent of GDP and 73 percent of employment in Morocco. In 2019, the cumulative export turnover of companies in Morocco amounted to 306 billion dirhams, of which 73.6% was generated by large companies and 26.4% by MSMEs.

Prof. DİNÇER mentioned that the foundations of the institutional framework for SMEs in Morocco date back to the creation of the National Agency for the Promotion of Small and Medium Enterprises (Morocco SME, formerly ANPME) under Law 53-00. In 2006, the FOMAN (for consulting and technical assistance to SMEs) was established, and in 2008, a contract was initiated for a government program to modernize and support business competitiveness. In fact, SME policy is driven by the national economic development agenda. In this regard, the role of overseeing SME policy is performed by the Ministry of Industry, Investment, Trade and Digital Economy through two development strategies: the PNEI for 2009-2015 and the Industrial Acceleration Plan for 2014-2020 (extended to 2023 due to COVID-19).

She informed the participants in line with the National Plans, a new national strategy to promote small business development was developed in 2011 in Morocco. The main pillars of the plan were a simplified tax system, adjusted social contributions, expanded social security coverage, and special banking products. In addition, important incentives were provided to small businesses, such as a reduction in corporate income tax from 30 percent to 15 percent and tax incentives for the transformation of businesses into the formal sector.

Prof. DİNÇER expressed that in 2015, changes were introduced to reduce informality among MSMEs and allow informal businesses to enter the market. This is accompanied by tax and social benefits that can unleash the entrepreneurial potential of target groups belonging to different socio-professional categories. The Finance Act of 2019 introduced a reduction in the tax rate for self-employed entrepreneurs subject to income tax. Thus, the new rate is 0.5% (instead of 1%) for commercial, industrial and craft activities and 1% (instead of 2%) for services.

Regarding entrepreneurship promotion, the Moroccan SME Agency supported 2,226 self-entrepreneurs and project managers in 2020. This brought the total number of beneficiaries to 15,000 since 2015.

She expressed that the major institutions of SME internationalization in Morocco are 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) and the National Committee for the Business Environment (CNEA).

She also explained that the major support programs are 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 Program: 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) supports companies and service providers to benefit from real commercial visibility, access new markets and offer more attractive services to their clients.

Prof. DİNÇER mentioned that SMEs face with the challenges such as; (i) No program directly addressing SME internationalization (ii) AMDIE supports exports in the country but not a specific program for SMEs (iii) The MSMEs in Morocco are mainly micro-enterprises (iv) Not enough promotion on support programs (v) Support programs only for manufacturing sector and (vi) Problematic for distant SMEs to reach Maroc PME.

Pakistan

In the last part of the presentation, Prof. DİNÇER briefed the participants on historical developments and the economic performance of Pakistan.

She informed participants that based on the criteria of number of employees, assets and turnover, SMEs in Pakistan are defined as small enterprises, medium enterprises and start-up enterprises. Enterprises with annual sales of less than PKR 150 million are classified as small enterprises, and enterprises with annual sales between PKR 150 million and PKR 800 million are classified as medium enterprises. Small enterprises with an age of more than 5 years are referred to as start-up small enterprises, and medium enterprises with an age of more than 5 years are referred to as start-up medium enterprises.

A significant 70 percent of Pakistan's exports are made by large companies. SME exports account for 30 percent of Pakistan's total exports. This shows that the share of SMEs in Pakistan's exports is small.

Ms. DİNÇER stated that since 1998, the Pakistani government has been trying to create an institutional structure to ensure the growth and development of SMEs and The National SME Policy 2021 has been prepared to carry out the necessary strategies and studies for the development and growth of SMEs. The SMEDA and the National Coordination Committee have been established to implement the National SME Policy 2021. In addition she added that, simplification of procedures for SMEs and tax exemptions are being implemented by the FBR and financing for SMEs by the SBP.

She underlined the aims of the Pakistan Government such as, improving the business and investment environment, providing access to credit for all enterprises, providing human resources, technology and infrastructure to increase SME competitiveness and exports of high value-added products. She also highlighted that the National SME Policy 2021, prepared to achieve this goal, is a basic framework to ensure its implementation in four key areas: (1) Macro policy and regulatory environment (2) Supply side challenges (3) Demand side challenges (4) Institutional mechanisms.

Prof. DİNÇER expressed that the major institutions of SME internationalization in Pakistan are Small and Medium Enterprises Development Authority, the Trade Development Authority, Federal Board of Revenue and State Bank of Pakistan.

She mentioned that the major support programs are 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.

Prof. DİNÇER explained that Pakistan has some challenges in increasing the internationalization of SMEs namely, SMEs' access to finance: a major hurdle, the lack of high-quality human resources and the lack of a developed IT support system. On the contrary, she mentioned that the necessity of an environment of trust and an institutional structure for the development of SMEs is a lesson learned.

4. Experiences/Perspectives of the Member States, International Institutions, and Private Sector

4.1. Experiences/Perspectives of the Member States

a) Bangladesh

Mr. Nazeem SATTER, General Manager in SME Foundation Ministry of Industries The Government of The Peoples Republic of Bangladesh, made a presentation about the Increasing Internationalization of SMEs in the OIC Countries representing Bangladesh.

Informing the participants current status of SMEs in Bangladesh Mr. Nazeem SATTAR stated that SMEs involve different types of organization-proprietary concern partnership firms and private Limited companies in Bangladesh.

Mr. SATTAR briefed that in 2016, the Government approved the industrial policy with the highest priority for the development of SMEs. The top priority sectors are Agro and Food Processing, Readymade Garments, Software Industries, Leather and Leather-based products and Pharmaseucticals. He also mentioned that the government declared different incentives and policy supports for the priority sectors.

He expressed that in 2019, 11 strategic goals were designated as SME Policies namely; the development of the business environment, enhancement of institutional finance opportunities, increasing the uses of ICT and Technologies, expansion of women entrepreneurship development programs, and institutionalization of statics research and development etc.

He informed the participants of the present export statistics of Bangladesh from 2019 to 2021.He also added that Bangladesh has success in Ready-Made Garments (RMG) export which has created about 4 million jobs and driven economic growth.

Underlining that SMEs are key communities to innovate diversify and exploit the untapped export markets Mr. SATTAR highlighted that the Potential SME products are footwear and leather goods, furniture, RMG, and Home Textile Engineering Plastic and electrical.

After stating that there are three institutions providing support to SMEs, namely the Ministry of Commerce, SME Foundation and Private Sector Trade Organizations, he stated that the Government has assumed a leading role in the internationalization of SMEs. He added that supports such as capacity building training, cash and tax incentives, product diversification, and linkage with local and international buyers and suppliers, etc are provided.

However he mentioned that there are some challenges in supporting programs to internationalize SMEs namely; lack of exportable products, lack of competency, lack of certification and standardization, lack of modern technology, and reluctance tendency of educated people to become entrepreneurs.

Lastly, he mentioned that in order to overcome these challenges, they had to improve digital SME product platforms for OIC countries, development of demand-driven products, export market information and facilitation, and capacity building etc.

4.2. Experiences/Perspectives of the International Institutions

b) Islamic Chamber of Commerce, Industry and Agriculture (ICCIA)

Ms. Samrah QURESHI, International Relations Associate at ICCIA, made a presentation titled “Increasing Internationalization of SMEs in The OIC Member Countries”.

Ms. QURESHI shared that the growth of the e-Commerce sector is one of the most important areas to support SME internationalization for which ICCIA is working on a comprehensive strategy. She mentioned that till now, it has already conducted multiple knowledge-sharing programs such as e-Commerce Challenges and Opportunities under the Best of Entrepreneurship Series, Pakistan, and online webinars under its ICCIA Leadership Talks

Series, to build the capacity and linkages of SMEs and inspire entrepreneurs in the informal sectors.

In her presentation, she also highlighted policy recommendations concerning e-Commerce development that include National Digital literacy Programs, Uninterrupted Electricity, and tax exemptions for SMEs to help new businesses reach a stable position. These were the direct outcome of the events held under the e-Commerce theme.

4.3. Experiences/Perspectives of the Private Sector

c) Private Sector: Volta Motors

Mr. Aydın KARACA, Deputy Director General of Volta Motors made a presentation titled “Volta Motor Company Corporate Informations”. As a successful example from Turkey, based on the private sector experiences of member countries, Mr. KARACA briefed the participants on the history of the company.

Mr. KARACA mentioned that the foundations of the university-industry cooperation project supported by KOSGEB, which has been Turkey's main expert institution in SME support since the establishment of the company.

He also underlined that with the valuable support of KOSGEB and other related Ministries, their company has successfully completed its starting phase International Structuring.

He stated that what kind of support was used at various stages during the 12-year period when the company came to its current scale.

Highlighting the national and international partners, and exporting countries of Volta Motor Mr. KARACA informed that Company passed the stages during the internationalization process and today Volta Motor's becoming an important country-regional manufacturer exporting to more than 50 countries with its approximately 500 employees, total four factories which are one in China and 3 in Turkey and with established subsidiaries in six European countries.

5. Policy Debate Session

Under this agenda item, the participants deliberated on the policy options to increase the Internationalization of SMEs in the OIC Member Countries. Ms. Elçin EDİS moderated the round table session. After fruitful discussion and deliberations, the Working Group has come up with the following policy recommendations to be submitted to the 38th Ministerial Session of the COMCEC for the kind consideration of honourable Ministers. Finally, Ms. EDİS concluded the presentation session.

(Policy Recommendations and their rationale are attached as Annex IV)

6. COMCEC Financial Support Programs

Ms. Eda AKÇA, Program Coordinator at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding.

Ms. AKÇA informed the participants about main characteristic of the COMCEC Project Funding and novelties on this funding mechanism. Ms. AKÇA started her presentation by explaining objectives of COMCEC Project Funding. Then, she explained project cycle, major actors and their roles in this funding mechanism. She stressed the importance of finding a project idea and informed the participants on how they can find project topics. Ms. AKÇA continued her presentation with novelties in COMCEC Project Funding. She highlighted the new two projects types, which will be supported by COMCEC and informed the participants about opportunity to implement project individually in next implementation period. She also explained the main selection criteria for being an applicant for a project.

She also reminded the participants to read the application documents particularly the Project Preparation and Submission Guidelines as well as supported sectoral themes before designing and submitting their project proposal. Moreover, she informed the participants about online project submission system and highlighted the critical steps for this process.

Finally, Ms. AKÇA invited the Member Countries and OIC Institutions to submit their project proposals and wished all the success in the project submission period.

7. Closing Remarks

At the end of the Meeting, Ms. EDİS thanked all the participants for their efforts. Considering SMEs still face similar problems no matter in which country they are located she indicated that government's duty should be to equip SMEs with the necessary tools and instruments. Thus, the report of the TWG in 2022 is very useful for the Member Countries to bring up better solutions to the challenges faced and provides the countries with guideline that will be adopted by the all OIC fora.

In his closing remarks, Can AYGÜL, Director of the COMCEC Coordination Office, underlined the importance of fruitful discussions regarding internationalization of SMEs. He highlighted that The outcomes of this important meeting will be submitted to the Thirty-eight (38th) COMCEC Session to be held in 26-29 November 2022.

He also stressed that active participation of Member Countries in preparations of the research report through sharing their experiences and best practices and the answers to surveys provided by research team bears utmost importance.

He ended his closing remarks by expressing his sincere thanks to participants of the Member Countries for their active involvement in and contributions to the discussions and deliberations. He also conveyed his thanks to the representatives OIC Institutions for their valuable contributions and COMCEC Coordination Office for the excellent preparations made for the meeting.

8. ANNEXES

Annex-I



THE 19TH MEETING OF THE COMCEC TRADE WORKING GROUP

(October 4th, 2022; Virtual Meeting)*

*“Increasing Internationalization of SMEs in the OIC Member Countries”
(2nd Meeting- Final Draft of Research Report and Policy Recommendations)*

DRAFT AGENDA

Opening

1. Presentation of Final Draft of the Research Report (Selected Case Countries, and the Policy Options).
2. Experiences/Perspectives of the Member States, International Institutions and Private Sector
3. Policy Debate Session on Increasing Internationalization of SMEs in the OIC Member Countries.
4. COMCEC Financial Support Instruments

Closing

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PROGRAMME
19TH MEETING OF THE COMCEC
TRADE WORKING GROUP
(October 4th, 2022; Virtual Meeting)

*“Increasing Internationalization of SMEs in the OIC Member Countries”
(2nd Session- Discussion and Review of the Final Draft of Research Report)*

13.15 - 13.30 Joining the Online Meeting

(The link for the participation will be conveyed in advance of the Meeting)

13:30 – 13:40 Opening

13:40 – 14:50 Presentation of the Final Draft of the Research Report

*13.40-14.05 - Presentation on General Overview of the Report
by Prof. Dr. Ayça TEKİN KORU
Consultant, COMCEC Coordination Office*

*14.05-14.15 - Presentation on Main Findings of Online Survey
by Prof. Dr. Seyit Mümin CİLASUN
Consultant, COMCEC Coordination Office*

*14.15-14.40 - Presentation on Selected Case Country Presentations
by Prof. Dr. Nazire Nergiz DİNÇER
Consultant, COMCEC Coordination Office*

14.40-14.50 - Questions and Answers (Q & A)

14:50 – 15:50 Experiences/Perspectives of the Member States, International Institutions, and Private Sector

14.50-15.10 - Presentations by Member Countries

Mr. Nazeem SATTER, Expert

*The Small and Medium Enterprise (SME) Foundation, Ministry of Industries
Bangladesh*

15.10-15.30 - Presentations by International Institutions

Ms. Samrah QURESHI

International Relations Associate

Islamic Chamber of Commerce, Industry and Agriculture (ICCIA)

15.30-15.40 - Presentation by Private Sector

Volta Motors

Mr. Aydın KARACA

Deputy Director General

15.40-15.50 - (Q & A)

15:50 – 16:20 Moderated Policy Debate Session on Increasing Internationalization of SMEs in the OIC Member Countries

15:50-15:55 - Presentation by COMCEC Coordination Office

Mr. Yunus KAYIŞ

Expert

- (Q & A)

16:20 – 16:40 COMCEC Financial Support Instruments

- Presentation by COMCEC Coordination Office

Mr. Eda AKÇA

Expert

- (Q & A)

16:40 – 16:50 Closing Remarks

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Annex- III

LIST OF PARTICIPANTS

LIST OF PARTICIPANTS

19th Meeting of the Trade Working Group (October 4th, 2022, Online)

A. MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN

- Mr. ALI AHMAD SAADAT
Director General Regional Cooperation and Provincial Affairs Coordination, Ministry of Economy
- Ms. TAGHREED SHANAAH
Sr. Enterprises Development Specialist, Ministry of industry & Commerce

REPUBLIC OF AZERBAIJAN

- Mr. ANAR YUSUFZADA
Director of PPP Environment Improvement and Capacity Building Department at PPP Development Center, The Small and Medium Business Development Agency of the Republic of Azerbaijan
- Mr. ARTOGHRUL AHMADOV
Lead Adviser, Ministry of Economy of Azerbaijan Republic

PEOPLE'S REPUBLIC OF BANGLADESH

- Mr. NAZEEM HASSAN SATTER NAZEEM
General Manager, The Small and Medium Enterprise (SME) Foundation, Ministry of Industries, Bangladesh

REPUBLIC OF BENIN

- Ms. KEKE GBAGUIDI ALICE
CHEF SERVICE ECHANGES COMMERCIAUX, REGLEMENTATION ET STATISTIQUES, MINISTERE DE L'INDUSTRIE ET DU COMMERCE

BRUNEI DARUSSALAM

- Mr. HARİZ KHALĪD
Assistant Manager, International Relations & Cooperation, Darussalam Enterprise
- Mr. HAZĪQ RAHMAN
Executive Officer, International Relations & Cooperation, Darussalam Enterprise
- Ms. AMALĪNA MURAD
Assistant Director, Ministry of Finance and Economy
- Ms. AMANINA SHAMSULBAHRIN
FINANCE OFFICER, MINISTRY OF FINANCE AND ECONOMY

ARAB REPUBLIC OF EGYPT

- H.E. Prof. Dr. RANĪA NABĪL
member in the COMCEC Division, Ministry of trade

REPUBLIC OF GAMBIA

- Mr. OUSMAN BOJANG
Director of Trade, Ministry of Trade

REPUBLIC OF INDONESIA

- Mr. CATUR NUGROHO
Trade Negotiator, Ministry of Trade of the Republic of Indonesia
- Mr. CHRĪSTHOPHORUS BARUTU
Trade Negotiator, Ministry of Trade of the Republic of Indonesia
- Ms. SENDY SĪTORESMĪ
Trade Negotiator, Ministry of Trade of the Republic of Indonesia
- Ms. TUTĪ WĪNARTĪ
Trade Negotiator, Ministry of Trade of the Republic of Indonesia

ISLAMIC REPUBLIC OF IRAN

- Ms. ELHAM HAJĪKARĪMĪ
Head of division, Iran Trade Promotion Organization

REPUBLIC OF IRAQ

- Mr. ADEL KHUDHAIR ABBAS ALMASOODI
DIRECTOR GENERAL, MINISTRY OF TRADE
- Mr. THARWAT AKRAM SALMAN
DIRECTOR, MINISTRY OF TRADE

THE STATE OF KUWAIT

- Mr. SOUD ALRASHIDI
Foreign Relation Researcher, Ministry of Finance

MALAYSIA

- Mr. FARHAN SHABRĪ
Assistant Director, Ministry of International Trade and Industry (MITI)
- Mr. ZAĪNAL BAHAUDĪN
Principal Assistant Secretary, Ministry of Entrepreneur and Cooperatives Development
- Ms. SUHADA AHAD
Deputy Director, SME Corporation Malaysia

REPUBLIC OF MALDIVES

- Mr. IFTHĪKHAR AHMED
Director, Ministry of Economic Development
- Mr. JAUSHAN MOHAMED
Director, Authentic Maldives
- Ms. FARĪSHA FATHHULLA
Assistant Director, Ministry of Economic Development

ISLAMIC REPUBLIC OF MAURITANIA

- Ms. FATMA ZEĪGHOUM
Expert of CIR, Ministry of Trade, Industry, Handicrafts and Tourism in Mauritania

ISLAMIC REPUBLIC OF PAKISTAN

- Mr. HUSSAĪN JAHANGĪR
Assistant Manager External Relations Directorate, Small and Medium Enterprises Development Authority
- Mr. ZAFAR UL HASSAN
Joint Chief Economist, Ministry of Planning

THE STATE OF PALESTINE

- Mr. JAWAD ALMUTY
DIRECTOR OF TRADE DEVELOPMENT DEP., MINISTRY OF NATIONAL ECONOMY

KINGDOM OF SAUDI ARABIA

- Mr. QASĪM ALALAWĪ
senior specialist, GAFT
- Mr. WALEED ALDAKHĪL
International Organizations specialist, The Saudi General Authority of Foreign Trade

REPUBLIC OF SENEGAL

- Ms. AMĪNATA SECK
Directorate of Foreign Trade, Ministry of Trade and Small and Medium Enterprises
- Ms. KHADIJA FALL
Controller of Control Economies, Ministry of Trade and SMES

- Ms. NDEYE MAGATTE GUEYE
MEMBRE AU BUREAU DE COOPERATION COMMERCIALE
INTERNATIONALE, DIRECTION DU COMMERCE EXTERIEUR

REPUBLIC OF TOGO

- Mr. RACHÏD DARAGO
Project Analysis, Ministry of commerce, industry and local consumption

REPUBLIC OF TUNISIA

- Mr. MOHAMED DALDOUL
Head of service, Ministry of trade and exports development
- Mr. MOHAMED JAMEL ELÏFA
Director , Exceptional Grade, Ministry of trade and exports development

TÛRKÏYE CUMHURÏYETÏ

- Mr. EMRE GÛRLEYÏK
SME Expert, KOSGEB
- Mr. MUSTAFA DENÏZ
SME Expert, KOSGEB
- Mr. SELÏM SERKAN ERCAN
Head of Department (EU and Foreign Relations), KOSGEB
- Ms. AYŖEGÛL DEMÏR
Trade Expert, Ministry of Trade of TÛrkiye
- Ms. ELÇÏN EDÏS
Head of Department, Ministry of Trade
- Ms. GÛLŖEN ALEPR
SME Expert, KOSGEB
- Ms. ZEYNEP SEZEN
Trade Expert, The Ministry of Trade, TÛrkiye
- Mr. MURAT ŖÛKRÛ SOYKAN
Director of International Relations, KOSGEB (Small and Medium Enterprises
Development Organization of TÛrkiye)

B. THE OIC GENERAL SECRETARIAT

INTERNATIONAL ISLAMIC TRADE FINANCE CORPORATION(ITFC)

- Mr. AMADOU CÏRE SALL
SENIOR ASSOCIATE, REGIONAL COORDINATOR, ITFC

C. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES(ESRIC)

- Dr. KENAN BAGCI
Senior Researcher, SESRIC

- Mr. ABDULHAMİT ÖZTÜRK
Researcher, SESRIC

D. AFFILIATED ORGANS OF THE OIC

ISLAMIC CHAMBER OF COMMERCE, INDUSTRY AND AGRICULTURE (ICCIA)

- Ms. AALİA JAFAR
Director International Relations, ICCIA
- Ms. SAMRAH QURESHİ
International Relations Associate, ICCIA

E. COMCEC COORDINATION OFFICE

- Mr. SELÇUK KOÇ
Deputy Director General

- Mr. CAN AYGÜL

Director

- Mr. M. CELALETTİN AKTAŞ

Director

- Mr. MEHMET ASLAN

Director

- Mr. YUNUS KAYIŞ

Assistant Expert

- Ms. MİNE DEMİR

Assistant Expert

POLICY RECOMMENDATIONS OF THE 19th MEETING OF THE COMCEC TRADE WORKING GROUP

This room document was prepared to enrich the discussions during the policy debate session to come up with concrete policy recommendations. It was drafted in accordance with the main findings of the research report conducted for this meeting and the discussions held during the 18th Meeting of the concerned WG.

POLICY ADVICE 1: *Promoting formalization of SMEs and eliminating informality through, among others, reducing the time and cost of registration and reducing administrative burdens*

Rationale / Explanation:

Throughout the world, especially in developing countries, informal activity by small and medium size enterprises (SMEs) is a significant problem. Given that SMEs are a driver of national economic growth, formalizing informal SMEs is critical to increasing productivity, creating better jobs, and supporting inclusive growth.

The OECD has published several documents and guidelines enriched with best practices, such as Best Practice Principles for Regulatory Enforcement and Inspections (OECD, 2014), OECD Regulatory Enforcement and Inspections Toolkit (OECD, 2018), and Formalization of Micro Enterprises in ASEAN: Policy Insight (OECD, 2020). The general recommendation is not to take overly stringent measures to discourage SMEs. Specifically, enforcement mechanisms are recommended, complemented by other reforms such as facilitating formalization. Since the state is the largest procurer of goods and services, governments should use public procurement to either penalize or incentivize local SMEs to support and otherwise promote them. Reducing the time and cost of registration and reducing administrative burdens would encourage formalization. Quick and easy registration would reduce the cost of formalization. Simplifying business registration and making it cheaper or free would be attractive to informal SMEs. Reducing the burden on formal businesses, access to finance, business development services, and public procurement would be the components of incentive-based mechanisms.

POLICY ADVICE 2: *Adopting a uniform SME definition and clearly identifying the objectives of SME-related laws and regulations.*

Rationale / Explanation:

Before taking the steps to improve the SME internationalization, it is important to adopt a uniform SME definition for clarity and comparability. This definition may vary from country to country; however, it is useful if an international standard (when possible) is adopted for comparison purposes.

Any kind of political intervention needs a legal basis to be legitimate. The type of laws and regulations may change according to the constitutional structure and needs of each country, but the main premise is the same when it comes to the internationalization of SMEs: It is to comprehensively promote policies for SMEs by establishing basic principles, fundamental

policies and other basic issues related to policies for SMEs, and clarify the responsibilities of the state and local public institutions, so as to contribute to the healthy development of the national economy, its integration into the global economy and the improvement of people's quality of life.

POLICY ADVICE 3: *Making SME internationalization a part of national policy documents by developing an SME strategy, setting out the strategy in a binding multi-year document and positioning SME internationalization policies in the context of broader policy frameworks.*

Rationale / Explanation:

As discussed in the Report, internationalization of business, especially SMEs, has far-reaching implications for development, such as higher-value economic growth, better employment opportunities, less poverty, and greater prosperity. Consequently, it is a good candidate to become part of the central government's policy agenda. SME strategy, sometimes referred to as a policy framework, should encompass the various facets of SME development, including but not limited to creating a business-friendly environment, promoting entrepreneurship, providing financial support, building a culture of innovation, e-commerce, and internationalizing SMEs.

Setting out the strategy in a binding multi-year document can provide clarity to all relevant stakeholders on the intended course and includes concrete targets and appropriate policy instruments in a variety of SME policy areas. Positioning SME internationalization policies in the context of broader policy frameworks including industrial, innovation or regional policies, is necessary. All such frameworks should reflect the priorities of the national development agenda, the preference for the internationalization approach across the economy, or the institutional division of responsibilities between the central and other levels of government.

POLICY ADVICE 4: *Supporting the institutional framework by necessary financial means and government guarantees to facilitate SMEs' access to finance as they move into international markets.*

Rationale / Explanation:

Access to finance is always a major problem for SMEs, whether they operate domestically or internationally. Entering the international market is a big step for a small business. It takes time for SMEs to build trusted relationships in other countries. It is more difficult for SMEs to receive payments for export within a short period of time. Financial institutions in the country may consider SMEs' business risky and prefer not to lend to SMEs. In this regard, trade finance support and guarantees provided by the government are the most important tools for internationalization.

In order to facilitate SMEs' access to finance as they move into international markets, government institutions such as Exim Bank or SME Bank are natural candidates for providing trade finance to SMEs. If these institutions are not available in the country, the central bank would delegate this task to a private institution. Publicity campaigns by public institutions or local banks would inform SMEs about access to trade finance.

Banks are reluctant to lend to SMEs because of the cost of loan handling and the risk of default. These barriers can be overcome by providing a guarantee. In doing so, the government should use expert personnel with experience and knowledge of credit transactions. Not all guarantee applications are suitable, and the agency must conduct a credit check. It also needs to develop efficient systems so that loans at banks that could be guaranteed can be processed proficiently. The rate of the guarantee can differ widely from program to program, from close to 50 percent to over 90 percent. A high guarantee rate creates moral hazard by reducing the lender's due diligence and risk. It also allows SMEs to continue to rely on the guarantee and unprofitable businesses to continue to survive and become zombie firms. Applications for guarantees should be considered on their merits and not subject to nepotism for politically connected individuals or companies. Guarantees issued on the basis of political preferences increase the default rate and the size of public subsidies. This can also result in potential borrowers who are worth more being priced out of the market (ADB, 2015).

POLICY ADVICE 5: *Categorizing SMEs in terms of their capacity and potential for internationalization and involve them in export assistance programs based on the results of the sorting system.*

Rationale / Explanation:

In many countries, there are numerous institutions responsible for the growth, capacity building, and export of SMEs. Considering that each institution must review applications for its program, a tremendous amount of manpower is required. To make better use of resources and reduce costs, the main institutions responsible for SMEs should sort them and make the results available to other stakeholders. The newly established funding programs would require that SMEs receive a benchmark rating as an eligibility criterion based on the nature of the program. In addition, the primary institution conducting the scoring would direct SMEs to different programs based on their needs.

Mandatory systems would discourage SMEs from applying or working formally. Therefore, the system should be voluntary. SMEs would participate in the system if there was an incentive to apply for funding programs, e.g., through a priori set criteria. To get the most out of the rating system, share the results with other stakeholders. Each time they design a new program, they will ask applicants for a grading result. Once they have collected the applications, they will use the sorting results for shortlisting.

POLICY ADVICE 6: *Supporting managerial and human resources of the SMEs in line with the requirements of successful internationalization.*

Rationale / Explanation:

The influx of well-educated and experienced workers to SMEs is contingent on the development of robust training organizations and national training networks (ADB, 2015). Graduates enter the labor market seeking employment in both small and large companies. These new workers need training geared toward participation in global markets (e.g., language courses), especially if the companies that employ them are SMEs. In addition, the high degree at which skills become outdated makes it difficult for older workers to find jobs, while

demographic aging requires better employability and working conditions for older workers. Automation and digitization are expected to further diminish demand for blue-collar and recurring tasks and increase demand for social and problem-solving skills to ensure complementarity between machines and workers (OECD, 2018). Therefore, improved lifelong learning is essential. Yet, there exists a lack of awareness. Furthermore, it is well known that on-the-job training is particularly costly for SMEs. There is a smaller workforce and fewer resources. Retention rates are meager, and the risk of stealing by other companies is abundant.

To bring leadership and human resources to exporting SMEs, the governments must develop and support all levels of education from elementary school to highly qualified higher education and vocational training. To ensure that students receive a high-quality education, the government should implement a system of institutional certification to guarantee that a proper training program is provided through high quality teaching. The training system must provide skills for key sectors and try to anticipate the skills needed for new and emerging sectors. Many SMEs produce for large companies and some directly export. Therefore, they need competent workers to fill their positions.

Adaptable training opportunities should be contemplated by SMEs themselves as well as by public and private training providers. For example, training can be offered on a part-time basis during slow times of the week or month. Language or communication courses can be offered to improve relations with foreign partners.

The traditional way to provide training is to send workers to training programs. However, another option is to bring instructors into the company, so that time can be saved, and training can focus on the specific tasks of the individual company. SMEs are often uninformed about state funded training programs, such as schooling support, vouchers, or partial cost grants. Public agencies should provide the necessary outreach to ensure that SMEs know about these programs.

POLICY ADVICE 7: *Providing guiding mechanisms for SMEs to improve their products according to the market- and product-specific required standards and certifications.*

Rationale / Explanation:

SMEs need to understand the standards required for their products in target countries. To prove the standards of the products, certifications are required for many goods. It is costly and time-consuming for SMEs to meet target country requirements for standards and certifications. The government would support MSMEs by providing the necessary information through a well-designed online portal. There are many examples that could be used. When SMEs are ready to export, they are faced with standardization and certification requirements. It is very difficult for them to understand the procedures. They would benefit greatly from semi-formalized government support.

There are international institutions that provide consulting services for SMEs' standardization and certification requirements for export. Governments need to refer their SMEs to these institutions for advice. The COMCEC is a large community of governments that have expertise in exporting certain goods. Therefore, the community would help each other in standardization and certification to increase exports of SMEs in the region.

POLICY ADVICE 8: *Supporting SME branding by creating a national brand and including the SMEs' products in the national brand.*

Branding is defining a unique name and image for a product or service in the minds of consumers and binding a customer to a supplier. Wendelin, (2004) explains that brand reputation has a psychological impact on purchase. Differentiation from competitors is one of the most important benefits of branding.

Penetrating international markets is a difficult process that helps products and services become known worldwide, leading to faster adoption.

It is more difficult for SMEs to create their own brands. Instead, the governments can create a national brand and group SMEs under the national brand. SMEs should be grouped under the national brand based on a list of criteria. Governments should promote the national brand around the world.

POLICY ADVICE 9: *Conducting impact analysis of implemented programs regularly and share transparently with public.*

Evaluating the impact of funding programs is very important to better allocate resources. They help the government design better programs each year, and SMEs receive better services from the government when programs are improved based on the results of the impact assessment.

Regular evaluation is necessary to further improve the programs. Continuous evaluation of programs allows the government to identify program weaknesses. If a program does not meet its goals over a period, policymakers should redesign it.

Impact assessment allows policymakers to make decisions about programs. However, for accountability reasons, they must also be published regularly to the public.

Instruments to Realize the Policy Advices:

COMCEC Trade Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues a call for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. To realize the above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include the organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.