

Study to
Identify Areas of Cooperation for SMEs
between IBSA Countries

Interim Recommendations for Discussions

By

UNCTAD Geneva and UNCTAD India Team

With

**Federation of Indian Micro and Small & Medium Enterprises (FISME),
New Delhi**

1. Introduction to the context

- 1.1 India, Brazil and South Africa are powers in their respective regions: South Asia, Southern Africa and Latin America, busy preparing themselves for global roles. All three have some remarkable similarities and yet unique strengths and weaknesses.
- 1.2 All three are democracies, have suffered from colonialism and still carry baggage thereof in form of administrative and institutional rigidities in some areas. These young nations (median age between 25~28 years), are reinventing themselves having made the critical points of departure during late 80s-early 90s: Brazil and India in process of shredding socialist baggage; South Africa in healing the wounds of apartheid.
- 1.3 The divergence, on the other hand, is not just geographical- all three are set apart in three different continents, but bears the distinctive marks of their long socio-economic history. In recent times, their economic growth has been distinct too: India grew slow during 50s~70s and rapidly after 80s, Brazil had high growth during 70s and volatile during 90s, South Africa slow but steady. All three have presence of large industries and leadership position in some sectors but their economic architecture differs considerably.
- 1.4 In spite of spectacular successes in many areas, all three sit on heap of glaring inequalities: Brazil and South Africa have the highest indicators of inequalities (Gini coefficient greater than 50) and India houses the world's largest number of poor (350~400 Mn people). All three genuinely look at Small and Medium Enterprise segment as a means to bring social equality and a ways to sustainable growth. While quite a lot has been achieved, there is a consensus that much is yet to be achieved.
- 1.5 It is in the context that on behest of Ministry of Commerce and Industry, Government of India, UNCTAD commissioned the study for identification of areas of cooperation for consideration of IBSA member countries.

2. Areas of cooperation for SMEs between IBSA countries

2.1 India- Brazil and South Africa, all have large number of SME development programmes supported by public resources reflective of their political priorities. The SME sector has also delivered in terms of their significant contribution to employment, industrial production and exports in their respective countries. Their growth and delivery though good have not been good enough especially when compared to their counter parts in other countries such as East, South East Asia and EU. The public support programmes have had some success stories too but their overall record has been, at best, moderate.

2.2 The international benchmarking surveys point out to some of these weaknesses. The investment climate report¹ highlights the top 5 business constraints recorded in the three countries namely:

India: Electricity; Tax Rates; Tax Administration; Policy uncertainty;
Corruption

Brazil: Tax Rates, Macroeconomic instability; Policy uncertainty; Cost of
Finance; Tax administration

South Africa: Skills; Macroeconomic instability; Labour regulations;
Crime; Tax Rates

2.3 Similarly, on issues such as access to finance and electricity, complexity of regulations, flexibility in employment; ease of entry and exit etc, all the three countries are far behind the countries SME growth of which they wish to emulate. Further, all of them have presence of very high degree of informal sector- the consequence of inherent rigidities of regulatory framework.

2.4 Keeping in view the overarching development concerns of the respective countries, their focus on development and growth of SMEs, their desire

¹ See 'Investment Climate Report : Brazil, India and South Africa: A contribution to IBSA Debate', World Bank 2006.

to initiate SME specific trilateral cooperation and based on early insights of the study, several interesting areas of cooperation have emerged which may be classified into four broad categories.

i. SME Development Policies and Regulatory Framework

Further classified into five segments:

- ③ Policy
- ③ Regulations
- ③ Access to Finance
- ③ Market intelligence and linkages
- ③ Support Infrastructure
- ③ Areas needing external assistance

ii. Trilateral Trade and Investment Support Measures

iii. Sectoral Initiatives

iv. Institutionalization and Management of action plan

3. Recommendations:

The policy and regulatory framework for creation and sustenance of enterprises is a complex and an ever evolving field. The list of constraints faced by SMEs is also long. However, owing to continued emphasis on SME development, there are already a number of good examples in practice in the three countries. There is huge scope of Intra-IBSA learning of best practices in the domain of public support for SMEs. The paper, therefore, suggests the two pronged approach for intra-IBSA cooperation:

- a. Sharing of best practices where one or more IBSA member countries have demonstrated success.
- b. Identification of areas where there are pending constraints and the countries have not been able to resolve them. Such areas could be marked for potential for external assistance.

3.1 SME Development Policies and Regulatory Framework

The SME development policies and regulatory framework is classified in five segments with indicative list of initiatives under each segment:

Sharing of best practices

3.1.1 Policy:

Though there is scope of external assistance for improvement in each of the following areas, these are potential areas of Intra-IBSA learnings as one or more IBSA members have recorded significant success:

- a. SME development through Cluster Development Methodologies (Brazil, India, South Africa)
- b. Public support service delivery mechanisms (Brazil, South Africa)
- c. Social inclusion of marginalized communities through SME support programmes (South Africa)
- d. SME- Academia linkage (Brazil)
- e. Use of Non-conventional energy; bio-fuels, recycling technologies (Brazil, South Africa)
- f. Enhancing women participation in SMEs (South Africa, Brazil)
- g. Development of Agro based SMEs (Brazil)
- h. Leveraging Geographical Indications/ Community knowledge for SME development (India)
- i. Infusing higher IT penetration in SME processes for enhanced competitiveness (India, Brazil)

3.1.2 Regulations:

- a. Exit, closure and bankruptcy laws for SMEs (Brazil)
- b. SME specific legislation (India, South Africa, Brazil)

3.1.3 Access to Finance

- a. Alternative Stock Exchange for SMEs (South Africa, Brazil.)
- b. Innovations in SME Financing (Brazil, South Africa, India)
- c. Financing instruments for Exports (Brazil, South Africa)

3.1.3 Market intelligence and linkages

- a. Linking SMEs with TNCs / global value chains (Brazil)
- b. Public Procurement from SMEs (Brazil, India)

3.1.4 Infrastructure

- a. Creation of support infrastructure in Private Public Partnerships (PPP) (India)
- b. Models for improving SMEs' access to electricity

Potential areas for external assistance

3.1.5 Areas needing external assistance:

- a. Regulatory Environment (Benchmarking studies with EU, US, ASEAN and Australia and gaps identification in the regulatory frameworks in each IBSA country)
- b. Exit, closure and bankruptcy laws for SMEs (Benchmarking with US, Japan and gaps identification in the regulatory frameworks in each IBSA country)
- c. Upgrading informal sector to formal sector (Identification of key causes of informal sector and global best practices to convert them into formal sector)
- d. Institutionalizing flow of Market Intelligence to SMEs in buyer driven sectors such as Textiles and Garments; Footwear; Processed Food
- e. Leveraging Tourism for enterprise creation
- f. Regional/ Local Economic Development Approaches

3.2 Trilateral Trade and Investment Support Measures

3.2.1 Intra-IBSA cooperation for deepening trilateral trade and investment

- a. **Policy support**

Special package for augmenting Intra-IBSA trade by sponsoring participation in Trade Fairs in identified sectors and provisioning of export credits.

b. Database development and publications (bi-lingual: English-Portuguese)

- ③ IBSA Business Guide: Business opportunities, Trade Fairs organized in each country, Customs procedures, regulations for FDI/ investment/ joint ventures
- ③ IBSA Business Travel handbook
- ③ Online Data base of companies interested in joint ventures
- ③ Online Data base of service providers (Law, Marketing and entry strategy, import and export procedures)

c. Training Programmes

- ③ Executive Training Programmes: How to tap business opportunities in IBSA countries
- ③ Language exchange programme
- ③ Training of Service Providers/ Consultants on IBSA investment procedures

d. Trade Facilitation:

- ③ Permanent Working Group to study and remove impediments in tri-lateral trade
- ③ Promotion of interregional banking and financial arrangements to facilitate joint-investment and business opportunities

3.2.2 Intra-IBSA cooperation on external trade issues

- a. Strategy to overcome Non-tariff barriers on IBSA-SME sectors
- b. Participation of SMEs in International Standards setting

- c. Developing IBSA members as Entry Points for their respective Preferential Trade Areas (India- SAARC, Brazil-MECOSUR, South Africa- SACU, SADC)

3.3 Trilateral Sectoral Initiatives

3.3.1 The four key sectors of immediate SME interest in IBSA are the following:

- a. Textiles and Clothing
- b. Leather and leather products
- c. Agro and Processed Food
- d. Auto components

However, there are several sectors where substantial potential for cooperation exists trilaterally in the field of :

- a. Information technology
- b. General Engineering and Electrical machinery
- c. Chemicals
- d. Plastics
- e. Pharmaceuticals

However, more detailing is required to identify specific areas of cooperation.

3.3.2 Technology benchmarking in 4 common sectors

- ③ Food processing/ agro-based industries
- ③ Textiles and clothing
- ③ Leather
- ③ Auto components

3.3.3 Twining of Clusters

All four sectors mentioned above offer good potential for tri-lateral twinning in clusters. Besides, there is scope of twinning in aircraft sector, drugs and pharma and IT.

3.3.4 Cleaner production

The following sectors may be identified for focus for identification of environmental friendly solutions

- a. Leather tanning and processing
- b. Metal working/ electroplating
- c. Textile dyeing processes
- d. Recycling/ solid waste management/ treatment of Industrial effluent

3.4 Action plan and Management matrix

- 3.4.1 Operationalizing the proposed plan would necessitate the following:
- a. Creation of two set of funds: One at country level and another- a common IBSA fund for SMEs.
 - b. Leveraging of common bilateral and multilateral agencies, already having SME support programmes in the three countries, in areas where external assistance would be helpful for example, World Bank, ITC/ UNCTAD, UNIDO, GTZ, DFID and Regional Development Banks such as ADB, IADB, AsDB.
 - c. Organization of IBSA Summit to launch the IBSA SME initiative to bring the key institutions and major stakeholders on board
 - d. Establishment of National level Secretariat for IBSA SME initiative in each country:
 - i. To coordinate the entire programme
 - ii. Have access to and authority to use allocated funds

iii. Be responsible for running integrated web portal for IBSA based on dynamic platform wherefrom the entire programme, planning, documentation and databases could be accessed.

The Secretariat and its coordination task could be delegated to third parties also based on three year project module to be managed on logical framework for monitoring and evaluation.

Each country secretariat to report to Minister in charge of Trade Ministry.

3.4.2 An suggestive Management Matrix is appended

Annexure

Proposed IBSA SME Initiative: Management Matrix

Thematic Area	Activity group	Proposed Management*	Sector Network
Sharing of best practices	Intra-IBSA cooperation		
	Policy	Working Group comprising of : - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries	To be kept in loop: - Banks and FIs - SME institutions - Media
	Regulations	Working Group comprising of : - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - Concerning Ministry	To be kept in loop: - Banks and FIs - SME institutions - Media
	Access to Finance	Working Group comprising of : - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - National Association of Banks	To be kept in loop: - Banks and FIs - SME institutions - Media
	Market intelligence and linkages	Working Group comprising of : - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - National Association of Consultants - Premier Trade/ Export Promotion Organization	To be kept in loop: - Banks and FIs - SME institutions - Media - Trade Promotion Organizations

	Infrastructure	Working Group comprising of : <ul style="list-style-type: none"> - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - Representatives from regions responsible for Infrastructure development 	To be kept in loop: <ul style="list-style-type: none"> - Banks and FIs - SME institutions - Media - Private sector companies engaged in Infrastructure development
	Areas needing external assistance		
	Benchmarking studies for improving Regulatory environment etc, Described in 3.1.5	Working Group comprising of : <ul style="list-style-type: none"> - Respective Trade Ministries - Respective Ministry responsible for donor cooperation - Respective Public SME promotion organization - National level SME associations in the countries - Major multi-lateral and bi-lateral donors - Regional Development Banks 	To be kept in loop: <ul style="list-style-type: none"> - Banks and FIs - SME institutions - Media - Institutions/ companies engaged in SME development programmes
Trilateral Trade and Investment Support Measures	Intra-IBSA cooperation for deepening trilateral trade and investment		
	Policy support	Working Group comprising of : <ul style="list-style-type: none"> - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - Premier Trade/ Export Promotion Organization 	To be kept in loop: <ul style="list-style-type: none"> - Banks and FIs - SME institutions - Media - Trade consultants - Trade Research Institutes
	Database development and publications	Same as above	Same as above

	Training Programmes	Same as above + Premier Trade Research and Training Institute in respective countries	Same as above
	Trade Facilitation	Same as above	Same as above
Trilateral Sectoral Initiatives			
	Technology benchmarking in 4 common sectors	Working Group comprising of : <ul style="list-style-type: none"> - Respective Trade Ministries - Respective Public SME promotion organization - National level SME associations in the countries - Major multi-lateral and bi-lateral donors - Premier sectoral associations - Responsible Cluster Development Agencies 	To be kept in loop: <ul style="list-style-type: none"> - Banks and FIs - SME institutions - Media - Trade consultants - Trade Research Institutes
	Twining of Clusters	Same as above	Same as above
	Cleaner production	Same as above+ Ministry responsible for environmental legislation	Same as above

** The names of institutions would be decided in consultation with respective governments.*