



Brussels Rural Development Briefings
A series of meetings on ACP-EU development issues

Briefing session n° 13

**Upgrading to compete in a globalised world:
What opportunities and challenges for SMEs in agriculture in ACP countries?**

Wednesday 23rd September 2009 – 8h30 – 13h00
European Commission, Borschette Center, Room 1D

<http://brusselsbriefings.net>

Context

In the context of the current world food and financial crisis, the private sector is an important development tool for poor countries, promoting growth, generating employment and promoting Public-Private Partnerships. Small and medium-sized enterprises (SMEs) are key to the economies in developing countries in terms of employment creation. However, agriculture and agri-food sector are challenged by emerging threats like climate change, changing consumption patterns, natural resource management, food safety demands, and increased urbanization. For many SMEs, facilitating trade can provide opportunities to reduce the impact of the financial crisis and design of trade and investment policy frameworks consistent with their needs and priorities is crucial for ACP countries.

While banks were beginning to turn to SMEs, the global crisis has come to restrict this trend and SMEs may see their access to credit deteriorate sharply. However, these companies need more than ever need long-term financing that the financial systems in countries are unable to provide. For SMEs, financing difficulties such as limited financing channels, low credit limits, high borrowing frequency, and high transaction costs pose great challenges as export-oriented enterprises have to seek new markets and new export opportunities.

Agribusiness remains in its infancy in most sub-Saharan African countries, many of which now pay higher prices for imported food products. If food crop productivity is to be a priority, it requires sizeable investments and a continuous and effective support of the international development community as well as greater involvement of the private sector in designing and implementing food-crop commercialization programmes and viable local food industries¹,

SMEs conquering markets through innovative approaches²

Globalization imposes new conditions and rules for competitiveness in international markets. It poses the imperative for SMEs to link up with other actors, both at the local and at the global level, and find new ways to interact and learn. Can local markets and clusters represent a powerful alternative to global markets? Do transnational corporations and global buyers play a role and enhance or undermine local firms' upgrading and learning? What opportunities do clustering and global value chains offer to SMEs in global markets?

Clustering and collaborating with other local firms can offer substantial advantages, and participating in global value chains and interacting with foreign buyers and companies may enhance local firms' capabilities and access to distant markets. The global competitiveness and productivity, the public-private collaboration in education and research, the transport infrastructure, the standards required by global markets with regard to quality, health, and environmental sustainability and the analyses of industry clusters and global supply chains are key factors influencing the upgrading process of local SMEs.

¹ Turning African Agriculture into a Business OECD, June 2009. www.oecd.org/dataoecd/58/56/42987772.pdf?contentId=42987773

² Upgrading to compete: Global Value Chains, Clusters, and SMEs in Latin America, Edited by Carlo Pietrobelli, Roberta Rabellotti

Value Chain³ Development and Cluster Upgrading

In the context of globalization and trade liberalisation, many of the difficulties SMEs face, because of their size and limited access to resources, could be overcome by promoting links between them - horizontally, into clusters and networks, and vertically, in value chains. Applying value chain analysis, and upgrading to global and local production patterns, could offer learning and upgrading opportunities to SME producers in developing countries. To participate in global markets in a sustainable way, SMEs will have to (i) make better products (product upgrading); (ii) make products more efficiently (process upgrading); (iii) move into more skilled activities (functional upgrading), (iv) move into new sectors (intersectoral upgrading).

Improving Productivity and Competitiveness through an increase in R&D

An economic and financial crisis provides the opportunity for a country and its private sector to review policies and programmes aimed at improving productivity and competitiveness which are central to a company's sustainability and profitability. Substantial empirical evidence supports the argument that investment in agricultural Research and Development (R&D) has contributed to economic growth, agricultural development, and poverty reduction in Latin America over the past 50 years (IAASTD 2008; World Bank 2007). New technologies resulting from R&D investments have enhanced the quantity and quality of agricultural outputs, while at the same time enhancing sustainability, reducing consumer food prices, providing rural producers with access to market opportunities, and improving gender-based allocations and accumulations of physical and human capital within households. Most private for-profit companies still outsource their research to government agencies or universities, or import technologies. Opportunities for private-sector involvement in research projects under competitive funding mechanisms needs further development⁴.

Improving Access to Trade Finance

Access to finance by the private sector has always remained a major challenge and SMEs still struggle to access finance due to some stringent requirements by commercial banks. Marketing and quality certification is another challenge for the private sector and sometimes private-sector associations are better at international marketing and quality certification, but international nongovernmental organization certification programs are unexplored, through which conscientious firms can seek a competitive advantage in global markets, where consumers are increasingly aware of social and environmental standards⁵.

Systems of Innovation and technical change⁶

There is an increasing concern among policy-makers in many countries about national or regional "competitiveness" and the technological dynamism required to be competitive. In developing countries industrial and technological performance is closely linked to the capacity to use technologies efficiently. This reflects the fact that they are seldom "innovators" in a narrow sense, but they crucially need to be able to acquire the foreign technologies relevant to their competitiveness, absorb them, adapt and improve them constantly as conditions change. Deficiencies in the science and technological infrastructure can seriously constrain industrial performance and should be a priority.

³ A value chain is a sequence of target-oriented production factors which combine to create a marketable product or service - from conception stage through to the final consumption. This includes activities such as design, production, marketing, distribution and support services to the consumer at the end of the line. The value chain approach is a methodology used to analyse and upgrade clusters or sectors. It is a methodology based on the assumption that economic performance and competitiveness of clusters or sectors largely depend on how these clusters or sectors are related to other actors both up and down the value chain.

Upgrading is a multi-dimensional process which helps to increase the economic competitiveness of enterprises and their clusters, and at the same time to create a positive impact on the affected workforce, community and society at large. http://www.ilo.org/dyn/empent/empent.Portal?p_prog=S&p_subprog=MO

⁴ The private sector in Chile, for example, is well known for its considerable expansion of fruit, salmon, and wine production in recent decades achieved with substantial public support, not for direct private research but for the importation of foreign technologies and the subsidization of agribusinesses (Hartwich, Janssen, and Tola 2002).

⁵ [http://siteresources.worldbank.org/INTECAREGTOPKNOECO/Resources/SessionRABELLOTTI.ppt#294,1,Upgrading to Compete Global Value Chains, Clusters and SMEs in Latin America](http://siteresources.worldbank.org/INTECAREGTOPKNOECO/Resources/SessionRABELLOTTI.ppt#294,1,Upgrading%20to%20Compete%20Global%20Value%20Chains,%20Clusters%20and%20SMEs%20in%20Latin%20America)

http://www.soc.duke.edu/sloan_2004/Papers/UNIDO_Pietrobelli-Rabellotti.pdf

⁶ National Technology Systems in Sub-Saharan Africa, [Sanjaya Lall](#), [Carlo Pietrobelli](#), 2005

Objectives of the Briefing

In order to improve information sharing and promote networking, CTA, the EC-DG Development and EuropeAid, the ACP Secretariat, Euforic, Concord and IPS organise bimonthly briefings on key issues and challenges for rural development in the context of EU/ACP cooperation. The briefing on 23rd September 2009 will discuss "Upgrading to compete in a globalised world: SMEs in support of agriculture " by (i) raising awareness on existing and emerging key challenges; (ii) promoting exchange of information and expertise; (iii) feeding in the debate various perspectives on the role of the private sector in the future of agriculture.

Target group

More than 100 ACP-EU policy makers, representatives of EU Member States, civil society groups, research networks and development practitioners, international organisations based in Brussels.

Available material

Input and comments before, during and after the meetings will be included in the Briefings blog: <http://brusselsbriefings.net/> .

A Technical Reader per topic is produced summarising key issues of the subject and providing online resources. Short reports (briefings) in printed and electronic format are available shortly after the meeting. Articles by IPS Europe, partner in this event, will be widely disseminated.

All the discussions are recorded and can be viewed online.