

COOPERATION, STRATEGIES, RELATIONS WITH EUROPE AND FINANCING STUDIED BY GOVERNMENT OFFICIALS RESPONSIBLE FOR LATIN AMERICAN AND CARIBBEAN SMEs

The Conference of Government Officials Responsible for Latin American and Caribbean SMEs was held within the framework of the preparations for the Fifth Summit of Heads of State and Government of Latin America, the Caribbean and the European Union (V LAC-EU Summit, Lima, May 2008) at ALIDE Headquarters on May 13 and 14. The purpose of the Meeting was to examine the possibilities for cooperation among Latin American, Caribbean and European countries on micro, small and medium enterprises (MSMEs), with a view toward tapping these enterprises' potential as an effective mechanism in the fight against poverty and for equality and social inclusion. With this same prospect in mind, possibilities were also sought for the discussion of relevant issues and public policy with regard to MSMEs and for making proposals, suggestions and recommendations that could constitute a concrete contribution toward the strategy for MSME development and toward deepening and improving birgional relations.

The Meeting was organized jointly by ALIDE, the Ministry of Labor and Employment Promotion of Peru, the Ibero-American General Secretariat (SEGIB), Europe – Latin America Relations Observatory (EULARO) and the Latin American and Caribbean Economic System (SELA) through the SELA-IBERPYPME Program. Distinguished experts from the public and private sectors, Latin American and European development banks, international and cooperation organizations (CAF, CAN, CARICOM, AILA, ALADI, COSUDE, FUNDES, and REGAR, etc), and civil society participated in the event.



Photo: At the Opening Session of the Meeting, Ramón Torrent, General Coordinator, EULARO; Rommel Acevedo, ALIDE Secretary General; Mario Pasco Cosmópolis, Minister of Labor and Employment Promotion of Peru; Federico Poli, Deputy Director of the Economic Affairs Division, SEGIB; and Flora Caricote Lovera, Permanent Secretary of SELA.

Different issues relating to MSMEs were addressed. Some aspects of the various presentations are covered below.

CORPORATE SOCIAL RESPONSIBILITY AND SME PRODUCTIVITY

“The Initiative of the Ibero-American General Secretariat (SEGIB) on corporate social responsibility and value chains,” presented under this topic, pointed out that programs for increasing the productivity of SMEs and of value chains of large enterprises led by the latter are an efficient and useful means for dealing with many of the problems that curtail SME productivity.

Programs led by buyer enterprises appear to be particularly effective in getting their suppliers to join formal circuits for registration and hiring, institute quality systems, accede to financing and obtain technical training for their workers.

Under this same topic, the particular experience “A value chain underway: the case of Cervecería Peruanas Backus” was explained. The company has a development program for micro and small enterprises based on a strategy with five pillars: knowledge, competitiveness, total quality, cost control and sustainable development. The priorities for the last of the pillars are: to discourage irresponsible consumption of its products (beer), produce more but using less water, reduce energy consumption and carbon emissions, reuse and recycle packaging, work toward “zero” waste in operations, have suppliers that reflect its values and are committed to sustainable development, benefit the communities in which they operate, respect human rights and act transparently in reporting environmental and social progress. The main characteristics of the program are: (a) alignment with the company’s strategy: contributes to the sustainable development of the company and of the community and takes the commercial objectives into consideration; (b) decentralization: targets the provinces; (c) short-term impact with measurable results; (d) sustainable over time: progressive development, defines a model that can be replicated in other areas and by other institutions or enterprises; (e) motivating/inspirational: develops the values of the enterprise and of society; (f) challenging: contributes to objectives of national interest, formality, competitiveness and decentralization.

BIREGIONAL COOPERATION INSTRUMENTS AND PROGRAMS FOR MSMEs

The SELA-IBERPyme Program, created during the Seventh Ibero-American Summit in 1997 at the proposal of the Government of Venezuela to improve the competitiveness of Ibero-American SMEs and bring about their internationalization was presented with regard to programs of this kind.

The Program acts through public and private intermediate institutions that support SMEs by boosting their capacities through the exchange of experiences on proposed issues, using initiatives that are underway and other programs and institutions with recognized experience in that area.

The AL-INVEST Program was presented as an example of “European cooperation in support of SMEs in Latin America and the Caribbean.” Established with the objective of creating links between SMEs of the two regions at the level of continuous regional economic dialogue, it was expected to contribute to the internationalization of enterprises in the two regions by inducing European SMEs to invest in the technological modernization and management of Latin American SMEs that require them. The program also sought to support SMEs in both regions by providing instruments conducive to trade and the transfer of technology and that promote private investments and to give SMEs easier access to the other continent.

PRODUCTION OF STATISTICAL INFORMATION ABOUT SMEs IN MOVING TOWARD THE CREATION OF A EUROPEAN-LATIN AMERICAN SME OBSERVATORY

“The experience of the SME Observatory in Argentina and the possible adaptation of its methodology to Latin America and the Caribbean as a whole” pointed out that the enormous microeconomic adjustments that have occurred over the past 20 years in the Latin American SME sector are not yet sufficiently known by the institutions; that the entrepreneurial demography has been extremely dynamic, with the disappearance of some enterprises and sectors and the birth of other actors; and that strong and rapid changes are taking place in the productive and commercial orientation of existing enterprises and their repositioning to cope with the competition of imports and of the larger enterprises.

Faced by this panorama, an SME Observatory was created as a pilot project. It consists of a sustainable mechanism for producing comparative information about SMEs and analyzing the role they play in the different Latin American countries; and for promoting an international cooperation project that will boost SME development by producing “information for action” (integration of regional production and inter-enterprise cooperation).

The problem of valuation information in MSMEs is the frequent mistakes made in comparative analyses regarding aspects like: proposing absolute definitions, establishing uniform categories, the tendency to replicate mechanically, and idealization of defining variables. These complex matters, which require an advanced interpretative capacity, have multiple variables. The following actions were proposed in order to move ahead in the sphere of information about SMEs: (a) promotion of observatories, rather than new agencies, as coordinators of multiple sources; (b) non idealization of applicative models and encouragement of exchanges and not mechanical replication; (c) application of statistical models in fields other than credit; (d) policy segmentation; (e) associative marketing; (f) mixed models; and (g) individualized technical assistance with information.

SME FINANCING AND ITS MECHANISMS

Corporación Financiera de Desarrollo S.A. (COFIDE), of Peru, presented “Structured Financial Products (SFPs) and the financing of production chains.” The paper pointed out that under the traditional financing system, intermediary financial institutions (IFIs) finance production without concern for the market, risk coverages have nothing to do with the process being financed, and IFIs demand from the producer real collateral and a positive record in the credit rating agency, mortgages, chattel mortgages on farm machinery and livestock, a normal classification or a classification with potential problems.

The IFI assumes the risk, which is a high rate credit risk. The operating costs are high, as is the credit risk and, as a result, the interest rates are high and access to financing is limited. This makes it necessary to make a complete change in financial intermediation methods and that is why the SPF is created, in which the repayment period, grace periods, amortization amounts, frequency of disbursements, currency, collateral, and interest rates are determined in accordance with the characteristics of the business to be financed: The financing is designed according to the conditions noted in each case.

The SFP finances viable production activities that have: (a) a solvent buyer who signs a contract and provides security that the production will be purchased under favorable terms; and (b) the necessary technical conditions and the fact that the technology to be applied has been validated. The SFP requires continuous supervision and technical assistance --in other words: (a) the financing process should have a supervisor especially hired for that purpose due to his experience and skill in this work (coordinator); and (b) the production should be directed and overseen by a specialist, whose technical backing and experience add value to the SFP (technical assistant). The production process being financed is a business and therefore decisions should be made always in terms of a cost-benefit criterion.

Insofar as the support of Corporación de Fomento de la Producción (CORFO) of Chile is concerned, it was mentioned that it provides management improvement services under the following programs: (a) Quality Development, whose aim is to support enterprises in improving their quality and productivity through the cofinancing of specialized consulting services in the incorporation of management systems or standards with certifiable or verifiable conformity assessments; (b) Technical Assistance Funds to improve enterprise competitiveness and productivity through the cofinancing of consulting services aimed at integrating modern business management techniques into its operation and incorporating new clean production and information and communication technologies in its production processes; and (c) Program of Local Undertakings to strengthen the management of a town’s entrepreneurs through skills development and investment cofinancing that will enable them to accede to new business opportunities. There is also the Associative Enterprises and Networks Service, which includes: (a) Associative development projects to support the preparation and implementation of joint projects involving at least 5 enterprises for the creation and development of a business with added value as compared with its initial situation that will give rise to a new associative enterprise; and (b) the Suppliers’

Development Program that supports the diagnosis, preparation and implementation of enterprise projects aimed at improving the quality and productivity of their suppliers.

A third group of development services are in the area of preinvestment to support the development of economic sectors and new production and service activities by cofinancing preinvestment studies.

With regard to the support policy for MSMEs in Mexico, the paper “Nacional Financiera (NAFIN) Credit products and guarantees for SMEs” was presented. The challenge facing NAFIN is to incorporate a larger number of SMEs into the financial system, in a country where there are 4 million formal enterprises together with another 6 million microbusinesses, in order to help them develop, create jobs, establish chains and gain access to credit accompanied by training and information.

The institutional development programs it offers to SMEs and that are carried out through the network of financial intermediaries (FI) are: (a) Second Floor Operating Program: channels resources to enterprises through the FI network. Enterprises should be eligible under the institution’s credit and risk policies; and (b) Automatic Guarantee Program: this is a system through which NAFINSA shares with the FIs the risk of the credits granted to enterprises. It also has the Production Chains Program, through which it seeks to integrate the various enterprises involved in a business relationship with a large enterprise or public institution around an Internet-based platform where they can obtain access to the available supply of financing through electronic factoring without resources, training and technical assistance. Some 5.3 million loans were extended under this Program during the 2002-2007 period, for a total of 415 thousand million pesos.

The “Latin American Reguarantee Fund Initiative” was also presented as an instrument for partially reinsuring guarantees granted by Latin American guarantee and/or reguarantee institutions; helping the region’s MSMEs obtain access to financing under the best terms; boosting and strengthening guarantee systems; sharing risks; freeing capital to grow (Basle II), reducing the coverage of reserves, favoring legal harmonization; standardizing and developing best practices; integrating territories; boosting and standardizing policies; balancing competitiveness on a territorial basis; and buffering and sharing supportively the cyclical impacts of crises.

This initiative had been presented earlier and discussed at the ALIDE Annual General Assembly Meeting and in the different forums of the Ibero-American Guarantee Network (REGAR). In addition, several ALIDE members proposed it at the Annual Meeting of Governors of the IDB and IIC, held in Lima, Peru, in March 2004. The idea, as expressed in the presentation of the Conclusions of the Meeting, is to submit this initiative to the Summit of Presidents of Latin America – Europe in order to obtain the necessary support and cooperation to boost its creation and operation once the technical studies have been made.

The “Reguarantee for SMEs in Europe” experience was also presented. Operated by the European Investment Fund (EIF) with resources from the budgets of the European Union and the European Investment Bank (EIB), together with public and private funds, it reguarantees national reguarantee institutions or guarantee institutions

for MSMEs directly (in countries where there is no institutional reguarantee mechanism), based on the capacity, soundness and track record of those institutions.

In the particular case of the Portuguese system, where the mutual guarantee companies are credit institutions, the guarantees granted are on first demand, facilitate MSME access to financing, promote better loan terms; reduce the provision of equity or personal guarantees; and support only viable enterprises. The Mutual Counter Guarantee Fund (MCGF), which operates in the public sphere and reguarantees national guarantee institutions, is the organization to which EIF reguarantees are funneled.

It should be stressed that the Portuguese Mutual Guarantee System (SPGM) acts as a kind of holding, invigorates the MGS, participates in the capital of the MGS, supports its activities under a shared services concept, generates a guarantee portfolio as a result of pilot projects, and supervises the system's development. Profit-wise, it can be seen that a 147 million euro initial investment by the public sector in SPGM and MCGF prompted an investment of 2,348 million euros in MSMEs --a leverage of almost 16 times each euro invested by the State.

The support given by Austria Wirtschaftsservice (AWS) for SME financing was also alluded to. The AWS is a financial institution owned 100% by the Republic of Austria. It supports MSMEs by providing subsidies, loans, guarantees and non-financial services in all of the stages of their development, from conception to take-off, internationalization and restructuring. AWS serves 8.5 % of the country's total enterprises (approximately 300 thousand, of which 85% receive bank loans); grants an average of approximately 100 million euros in subsidies every year that make it possible to mobilize investments totaling 1,000 million euros; and provides about 430 million euros in guarantees that prompt investments of 4,600 million euros.

The guarantees it provides are of two kinds: (a) loan guarantees for start-up, enterprise internationalization (to promote foreign direct investment covering the economic risk of the capital invested abroad), dynamic enterprises and technological financing; and (b) guarantees for private capital investment, in order to raise capital for MSMEs through private investments, covering the risk of the loss of the capital invested in the event of the enterprise's bankruptcy.

Banco do Nordeste's oriented microcredit program, CrediAMIGO, was presented, as well. With the aim of facilitating access to credit by thousands of entrepreneurs who perform activities relating to the production and marketing of goods and provision of services, CrediAMIGO offers products and services for small entrepreneurs, working capital for solidary groups and credit for the procurement of machinery and facilities and for small business reforms. CrediAMIGO's clients can be broken down as follows: nearly 92%, are in the commercial sector, 37% of them have less than 4 years of formal schooling, 61% have family incomes of less than R\$1,000 (US\$ 459), and 64% are women. According to an investigation conducted by the Program itself in December 2006, the market for microcredit in the area served by CrediAMIGO amounted to an estimated 2,178,372 credit applicants, while the Bank was serving only 630 thousand. The Program is being implemented in 1,481 municipalities in the Bank's area of operation. Service is provided through a logistics structure with 170 agencies and 37 customer service kiosks.