



# Using Market Systems to Reach More SMEs

(New Trends in SME Promotion)

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## Outline of Presentation:

- A short history of SME promotional Models
- The use of market systems as a new trend
- Key principles of “market development”
- A case study applying the principles
- Conclusions



## A Short History of SME Promotion

- **The Integrated Model** (1967-85)
  - Small vs. large (if its small its good)
  - SMEs need everything and the state will provide it:
    - Industrial estates
    - Cheap finance
    - Consultancy
    - Marketing, etc.
  - It reached a few but left out many



## A Short History of SME Promotion

- The Minimalist Model (1985-2000)
  - Reduce range of services but scale up outreach
  - Use a menu driven approach
  - Micro-Credit was the biggest success story
    - Gramin, BRI, Banco Sol
  - Based on market rates for services
  - The Big Lesson: “SME will pay if they get what they want”



## A Short History of SME Promotion

- The Market Development Paradigm (1999-2007)
  - Based on successes of micro-finance
  - But finance is not the only problem for SMEs
  - Other services (BDS) are needed to be competitive
  - How can we use markets and systems to increase the access of more SMEs to these services?



## A Short History of SME Promotion

- The Business Enabling Environment (2005...)
  - All of the above will function properly if we get the BEE right
  - Focus on the reform of public policies, laws, institutions, regulation and their effectiveness
  - Doing Business Surveys
  - The Social Market Economy is a variation



## The Market Development Paradigm

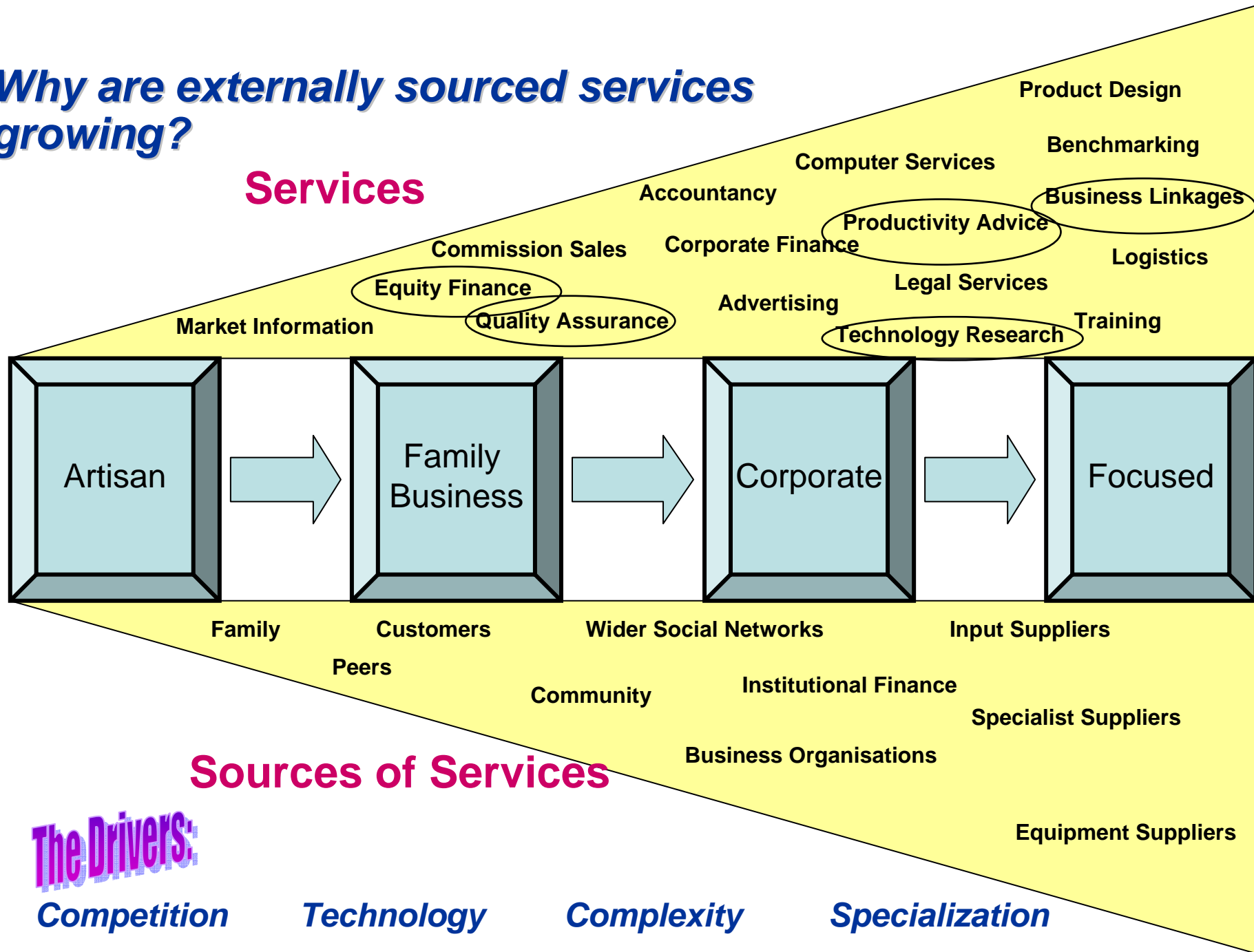
- The key challenge for most SMEs is “competitiveness”
- Aside from buying in capital and labor, growth today is coming from services
  - In the EU services is growing 4 X as fast as manufacturing
  - In the US 85% of all firms are now outsourcing services which they used to do in-house
  - Services make up 70% of value added in OECD



## The Market Development Paradigm

- Key Principles
  - Improving access of SMEs to services
  - Through systemic change in service markets (outreach)
  - That are sustainable
  - By using intermediaries or market players

# Why are externally sourced services growing?

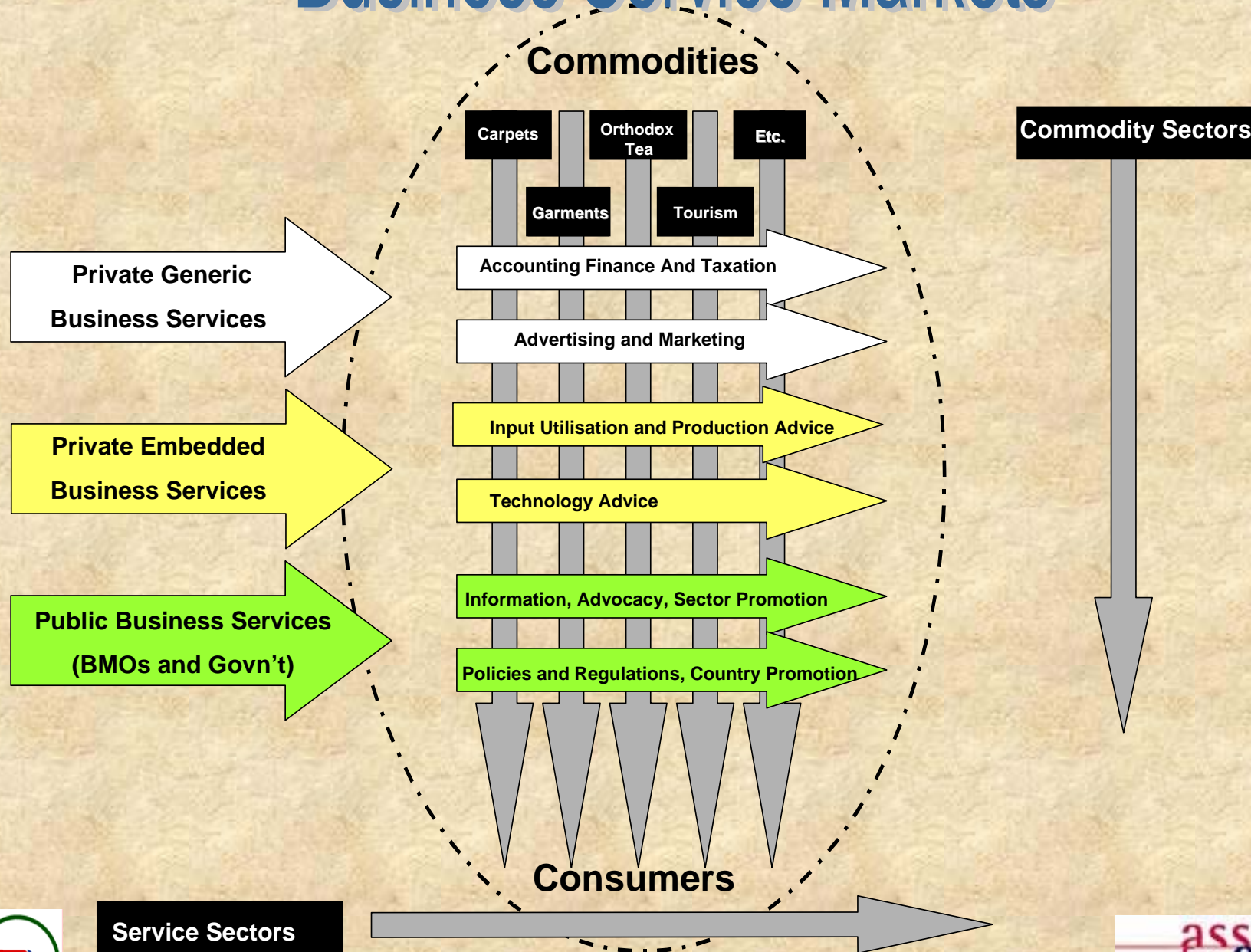


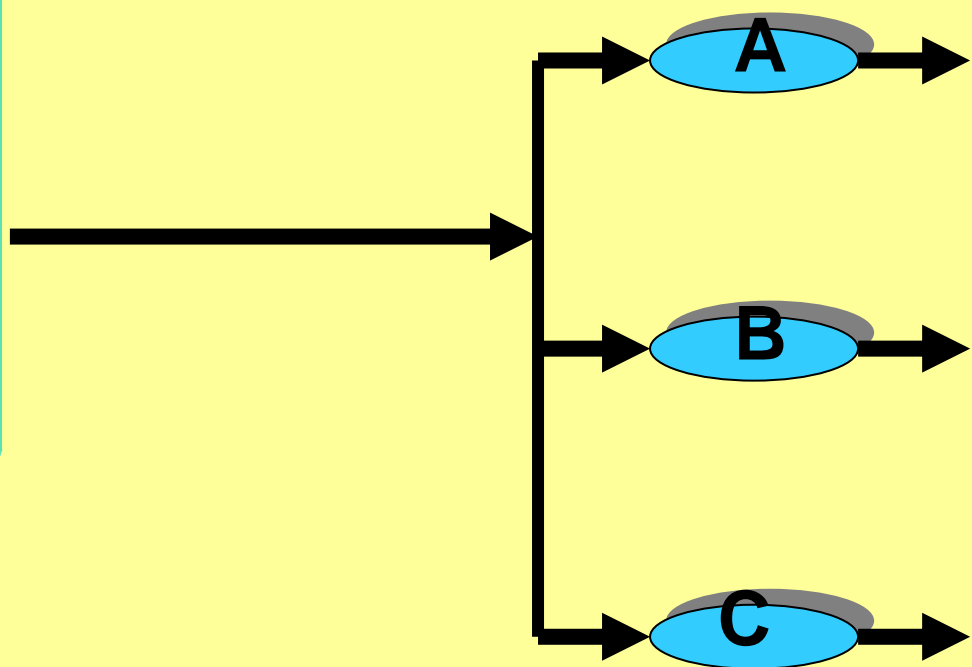
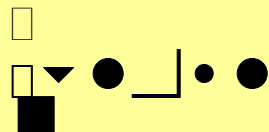
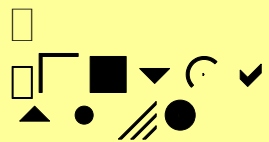
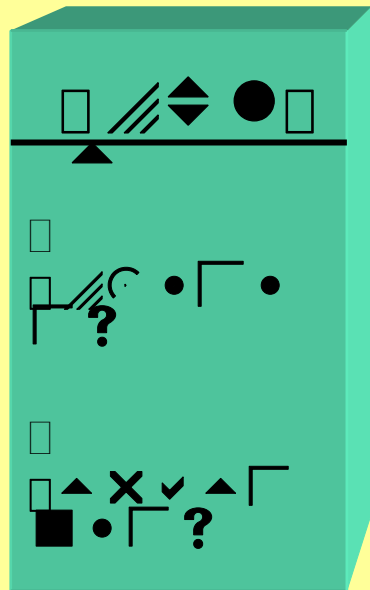
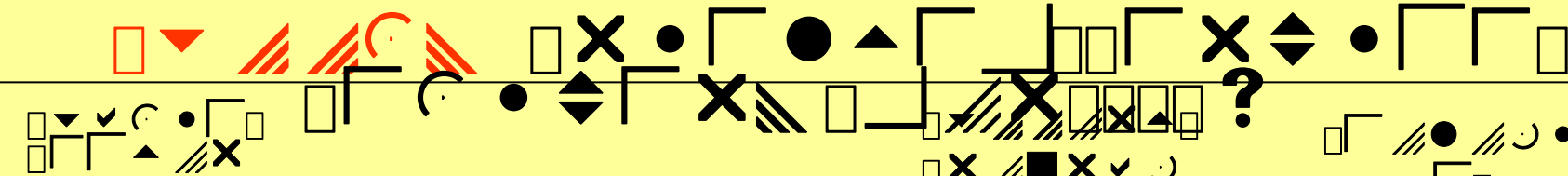


## The Market Development Paradigm

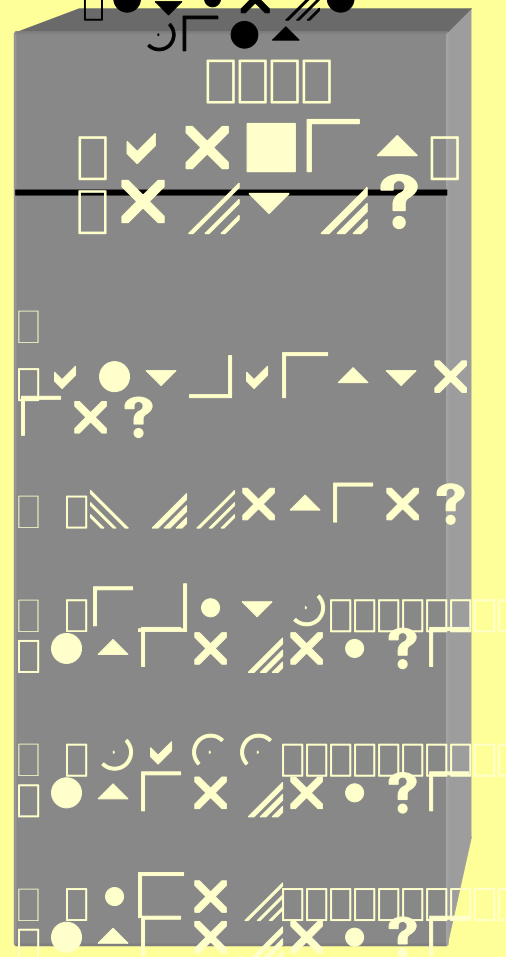
- Classification of Service Sources
  - Stand alone
    - Certification, HRD, Consultancy, etc.
  - Embedded in commercial transactions
    - Market info., Standards, Logistics etc.
  - Public from BMOs
    - Advocacy, Business linkages and Info.etc.
  - Public from Government
    - Info., Policies, Regulatory enforcement

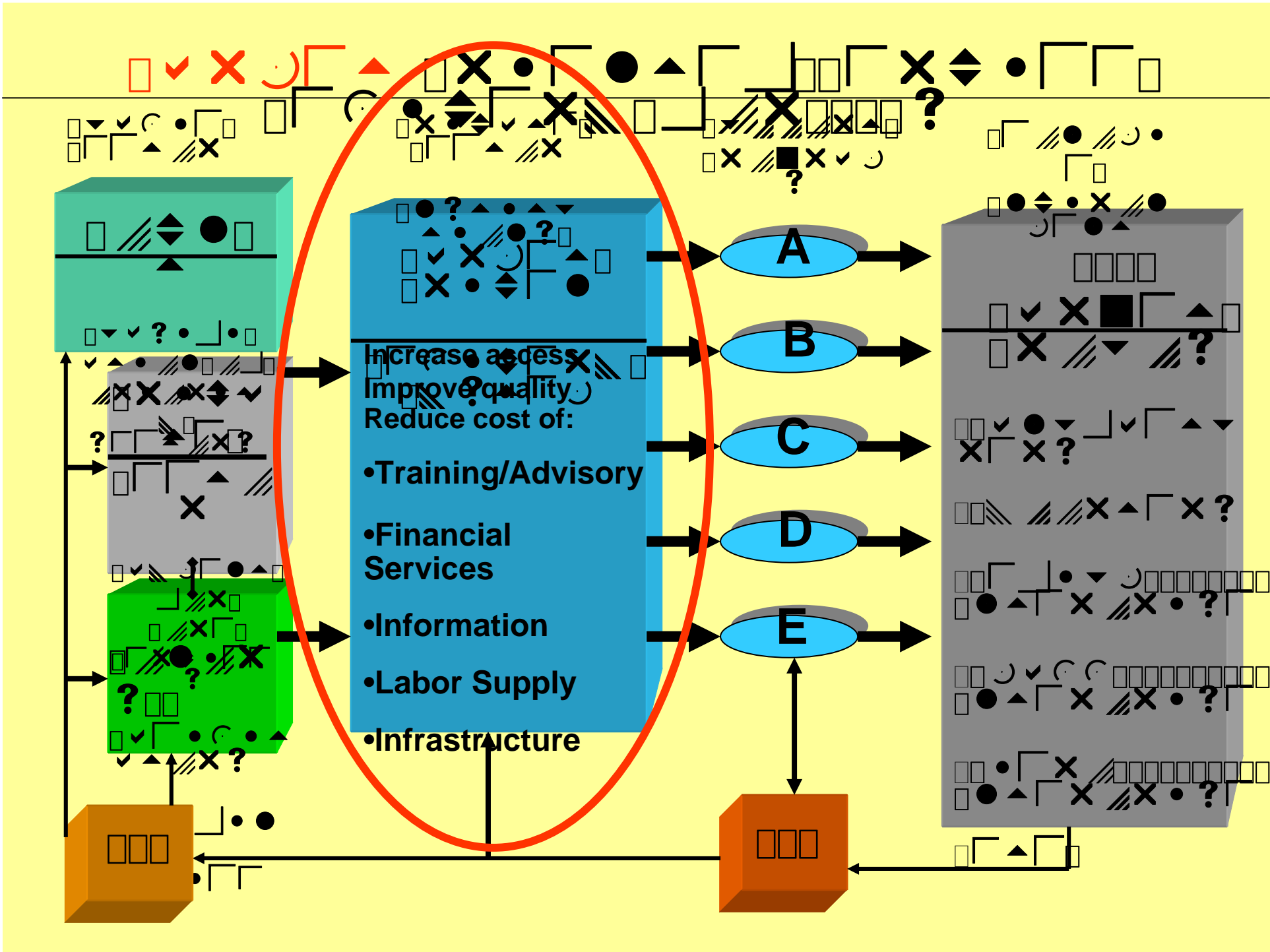
# Business Service Markets





- *Public Organizations*
- *NGOs*
- *Universities*





# ***Subsidiarity:***

***Choosing the right partner for the right  
“intervention”  
Interventions are ...***

sub-projects in a value chain, each one can have a different partner

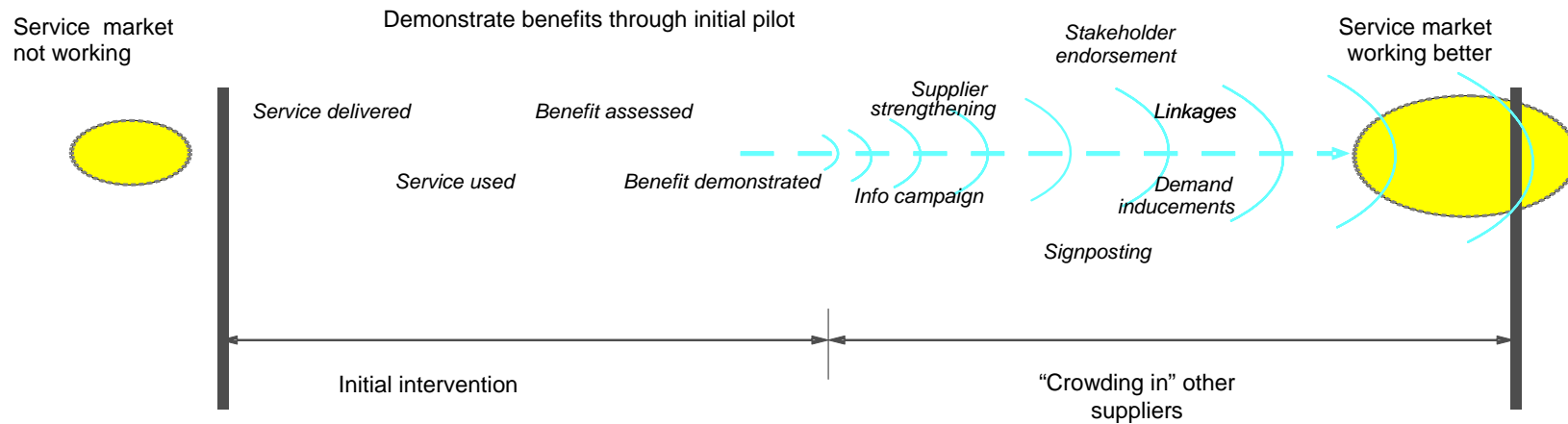
<b>Partners</b>	<b>Their Core Mandate</b>
<b>1. Lead Firms in Value Chains</b>	profits, sometimes promotion
<b>2. Stand Alone Service Providers</b>	profits, sometimes promotion
<b>3. Business Membership Organs.</b>	promotion, sometimes profit
<b>4. Government</b>	regulation, promotion

**If your view of sustainability is based more on:**

- Transactions and profits then choose 1 and 2 and sometimes 3**
- Promotion then choose 3 and sometimes 4, seldom 1 and 2**
- Regulation then choose 4 with the participation of 3**



## Impact and outreach





## Introduction to the Case Studies

- This case is from Thailand
- Focus on understanding market incentives and sustainable relationships (SMEs and large)
- Then examine their transactions to create more value for both parties
- It is a form of public-private partnership
- Is based on “cluster” or “value chain” work on competitiveness



# Case Study: Fresh Fruit and Vegetables

## Importance of the Sector

- Thailand is 5<sup>th</sup> largest global exporter of agricultural produce
- Export value of THB 38,343 Mill. per annum ( 5 % of total agricultural export)
- Mainly smallholders with an average land area of 3.7 ha.

## Key Competitiveness Issues and Focus of TG-PEC

- Systematic Farm Management
- More Processed Products
- Food Safety
- Market and Channel Diversification



## Value Chains and Service Markets

### Food Safety and Certification

- **Target Group** (a portion of 300,000 fruit and vegetable producers)
- **Opportunity** (premium prices and better incomes)
- **The service solution** (voluntary certification)
- **The strategy**
  - Pilot test Global GAP Option 2 for exports
  - Scale up exports
  - Use the same infrastructure for domestic market



## Impact Targets

- **Goal Level:** (Use of Output)
  - Increase of farmer income of 20%
  - Profit volumes of Euros 2 mio. p.a.
- **Service Market Level:** (sustainability of output)
  - 4 groups (15-20 farms) certified (Dec 07)
  - Certification cost reduced to 20%
  - 5 commercial CBs operating
  - 2 Compliance consultants operating



## Conclusions from The Case Study:

- The intersection of two markets
  - Fresh fruit and vegetables (exports)
  - The service market for certification
- The use of the lead firm to
  - Design the intervention
  - Co-finance the experiment
- Taking a “Systems” approach permits:
  - Easier scaling up (more SMEs)
  - Better sustainability