

**“INTERNATIONALIZATION OF SMEs”
AECM Seminar on 16th May 2008 in Budapest**

16th May 2008, Budapest

Summary

On 16th May, the AECM held its annual seminar in Budapest, Hungary on the topic of “Internationalization of SMEs”.

The event was opened by a welcome address by Mr. José Fernando Figueiredo, Chairman of AECM, who greeted the speakers and the guests, thanked AVHGA, the Hungarian Member Organisation hosting the event and outlined the programme for the day. On the occasion of the Seminar, he presented a short Video clip, which introduced AECM’s new corporate identity as approved the day before by the General Assembly.

He then passed the floor to Dr. András Máhr, State Secretary of the Ministry of Agriculture and Rural Development for a welcome speech. Dr. Máhr stressed the importance of SME guarantees and stated that the instrument should be given a greater role. In the case of the agricultural sector, major changes were under way and there was scope for financing and assistance tools. Especially in the context of the current price explosion in agricultural products, companies that are able to expand their production should be given the possibility. Here Mutual Guarantee Schemes could play a major role.

Following the introduction speeches, Ms. Ulrich, Managing Director of AVHGA, the Hungarian Rural Credit Guarantee Foundation, presented her organization. After giving background data to the Hungarian economy, SME sector and the financial landscape, she gave a short summary of

AVHGA's history, having been set up as first Hungarian credit guarantee organization in 1991 by the Ministry of Agriculture and 5 domestic banks. AVHGA gives direct guarantees for loans, bank guarantees, factoring and leasing. The purpose of the financing is either investment projects or working capital. Guarantees cover from 20% up to 80% of the amount, with 62% on average. Any transaction is limited to € 3,2 million. AVHGA also benefits from a 70% state counterguarantee and a 15% counterguarantee from the EIF for financing directed at the non agrarian sector. Since 1991, AVHGA has issued 24.416 individual guarantees for a total volume of € 1.572 million. On 31 December 2007, AVHGA's equity stood at € 76 million. As a consequence of Basel II, AVHGA is currently adjusting its procedures in order to receive a status equivalent to a credit institution under prudential supervision.

After the introduction speeches, Mr. Marcel Roy, Secretary General of AECM gave a short overview of the problematic of Internationalization of SMEs, outlining the specificities of the current phase of Internationalization while pointing out the opportunities and market barriers for SMEs. He presented the Key Note Speaker as well as the participants of the morning panel.

In her Key note speech, Ms. Rute introduced the audience to the European policy context with regard to internationalization. She underlined the still very low level of internationalization of European SMEs compared to those of other regions of the world. She stressed the link of internationalization with innovation and its importance for the European economy. Public support is crucial. It should integrate all actors, focus on SME shortcomings and on long term policies. The role of the European Commission is concentrated policy actions, provision of financial support to SMEs via the financial instruments and through specific support structures such as the Enterprise Europe Network. The Small Business Act, the forthcoming Commission SME policy package, will contain a number of policy items relevant for Internationalization. Among these were the Statute for a European Private Company, work related to standards, intensified support for transnational research, and the review of the late-payments Directive. The Enterprise Europe Network, as a single network, integrates among others services promoting business cooperation as well as innovation and technology transfer. The EEN employs more than 2000 full time employees across the EU and beyond.

Morning session:

- **Mr. Andrea Benassi, Secretary General of UEAPME, underlined the the representativity of UEAPME, with members in 35 different countries and all Member States. Its members usually are social partners in their countries. While its members are active in Internationalization, UEAPME itself had an indirect role of guaranteeing competitiveness at the outset. It defends that the principle of "think small first" needs to be integrated in the**

European legislative process to ensure that European SMEs could play on a level playing field in international competition.

Within the EU, the Internal Market continues to function with 27 different legal frameworks, sets of barriers and standards. SME organizations needed to be able to participate in the work of the Standard setting bodies, which up to now has been denied.

Another concern for UEAPME is the fair reciprocity of exchange flows, which does not entail protectionism. The European Enterprise Network and the forth-coming European Private Company Statute, which would allow the aggregation of small companies, even cross-border, are seen as helpful tools by UEAPME.

The increasing number of bilateral trade agreements is seen as a threat by UEAPME. While tariff-barriers may come down, there is a risk that non-tariff barriers, which are harder to overcome for SMEs, may come more into play. Finally, Mr. Benassi proposed a technical cooperation protocol between UEAPME and AECM to further coordinate lobbying efforts.

- Mr. Fournier from EuroChambres gave an overview of the broad support service network of the International Chambers of Commerce for the internationalization of its members. Up to 833,000 companies benefit from the internationalisation services provided by CCIs each year. They organize 4,500 trade missions and fairs on an annual basis addressing over 73,000 companies. Also, the CCIs conduct cooperation and political representation, along with regulatory cooperation, economic diplomacy and trade policy. Besides this, the CCIs offer seminars and workshops on international issues to their members, who can also count on 7,490 experts on internationalisation issues working in the European CCIs. CCIs dispose of a comprehensive presence with 257 Delegations and Trade offices abroad. A recent survey has showcased the best practices of EuroChambres' members on internationalization.
- Mr. Montanié from MEDEF / Business Europe pointed out that due to the globalization of markets and value chains, internationalization of SMEs was a necessary process. The activities of MEDEF's members take place on different levels: at the international level, mostly regarding trade policy and negotiations, at European level, regarding e.g. bilateral agreements and anti-dumping measures, and at national level. Speaking for the French example, he underlined that French SMEs mostly exported into the EU, followed by their Africa, as their most important non-EU trading bloc. He then summarized the success factors for going international. Companies had to conduct rigorous market studies coupled with a deep knowledge of the market rules. These are becoming more and more complex, as after a weakening of the WTO, free-market agreements, often regional, proliferated, with a great variety of rules and regulations, going from customs, product safety to tax and governance related aspects. He underlined the importance of the

Market Access data base of DG Trade and other tools by DG TAXUD. He finished his presentation with a description of the network of the “economic missions” of the French state and the MEDEF’s guide for internationalization support instruments.

- **In her presentation, Ms. Batorfi underlined the need for SMEs to go international as a result of the pressure on their national markets. But they face difficulties, such as finding an appropriate cooperation partner, the lack of resources and financial experience. As a consequence, each government provided export promotion programmes. The process of going international would only be successful, if companies realized that it entailed more than just exporting but rather a complex process at the core of the business strategy. She underlined the importance of cooperation agreements, as networks and cross-border. SMEs needed tailor-made support, that is based on a comprehensive screening process of the business and relied on venture capital and other financial funding. Recently, the Hungarian Government launched a Foreign trade round table” to facilitate the dialogue between SMEs and the government regarding the needed support measures and concerted action.**

Afternoon session:

- **Mr. Andrus Treier, CEO of KredEx stated that the drivers of internationalization were technical innovation and relative market size. He explained that his company gives loan guarantees for Estonian companies that invest abroad. The loan for the foreign investment is issued locally, i.e. by an Estonian Bank to an Estonian company and guaranteed by KredEx. When granting the loan, the bank relies on securities provided by the company and on the guarantee leaving aside the assets resulting from the foreign investment as these would be difficult to realize in case of default. This straightforward arrangement has been demonstrated by Mr. Treier with a number of examples. Also, KredEx is active in the field of export credit guarantees.**
- **In his presentation, Chairman Gyu Bok Kim of KODIT showed that in the case of Korea, the drive to internationalization is mostly driven by new business opportunities and increased economic efficiency. While total exports and Foreign Direct Investments by SMEs have grown over the last years, even if slower than the share from larger companies. They typically lack professional experts, information about reliable international business partners and last but not least, capital. Support programmes in Korea provide SMEs with foreign trade information, matching services, marketing assistance and export insurance and financing. Kodit provides larger credit guarantees for exporting companies (more than 2x the usual ceiling), guarantees on favourable terms for importing**

companies as well as many indirect forms of support for internationalization, such as consulting services. Finally, Mr. Kim stressed KODIT's international orientation, as part of ACSIC, the Asian guarantee association composed of 13 members in 11 countries. KODIT also maintains direct working level councils with international partners, such as the Thai SBCG, the Japanese Guarantee schemes and the Italian Eurofidi.

- Mr. Pichet Akrahit, Chairman of the Thai Small Business Credit Guarantee Corporation (SBCG) opened his presentation by underlining the importance of SMEs for the Thai economy. While the world economic environment was changing with a greater competitive pressure, business would as a tendency become smaller to be more competitive, focused on core competencies. In a SWOT analysis, Mr. Taveesak Foongkiatcharoen from SBCG pointed out that SMEs were more adaptable and niche market oriented, they also often lacked knowledge and management skills. They tended to benefit from international trade but also had to struggle with market barriers. SBCG has three main loan product lines for SMEs, the normal scheme, where the non-collateralized part of the loan is guaranteed, the Risk participation scheme, where the risks are borne both by the bank and the SBCG and the loan guarantee scheme. SBCG aims to boost the competitiveness of Thai SMEs, to raise the number of exporting Thai SMEs, support SMEs to penetrate niche markets in particular and promote entrepreneurship.
- Mr. Ahmad Wan Azhar presented the activities of the Malaysian Credit Guarantee Corporation in the field of Securitization of SME loans. CGC has a role as enhancer by providing guarantees for the mezzanine segment of the securitization portfolio and by providing funds for the senior tranche. The 5% first loss piece remains with the originator of the loans. Loans are issued according to clearly defined credit policies, allowing no sub-prime loans. Another obligation under the operation is that all new loan capacity freed by the operation be channeled to issuance of new SME loans. Despite the current troubles in the mortgage securitization segment, SME securitization operations remained successful and part of CGC's programme.
- Mr. Roberto Villa, President of AssoConfidi, representing the 6 Confidi (Mutual Guarantee societies) Federations in Italy, stated that in terms of internationalization, the Confidi mostly supported SMEs via export credit and foreign investment guarantees. This activity is to a large extent linked to public support instruments, mainly managed by SIMEST, a majority publicly owned company aiming at supporting the internationalization of Italian companies of all sizes through risk capital investments. Over the time horizon of 1999-2006, the Confidi have guaranteed 800 operations by SIMEST of a total amount of € 900 million. The Confidi also work with FINEST, which provides finance and particularly risk capital for

companies of North-East Italy which intend to expand in countries of Central and Eastern Europe, the Balkans, the Caucasus, Russia, CIS countries, etc. Finally, there have been a number of more recent and regional initiatives, such as A.R.C.O., which is a fund active in issuing guarantees and counterguarantees for Confidi and banks for SME risk capital investments in Croatia, Bosnia Herzegovina, Albania, Serbia and Montenegro. The Confidi also receive counterguarantees via the Fondo Nazionale di Garanzia per le PMI. Finally, Mr. Villa stressed the internationalization of the Confidi themselves, by supporting the setting up of new funds around the world and the intensification of the Confidis' contact with guarantee organizations not only in Europe but from around the world. One such cooperation example is the GO-Network initiative.

- In his presentation, Mr. Alfredo Herrero from Iberaval, after a short overview of the Spanish guarantee system, explained that SMEs faced disadvantages for internationalization, particularly due to their lack of guarantees, a low equity position and the need of tailor-made financial solutions. They particularly face difficulties in payment recoveries. Therefore, international business activities of SMEs could only grow thanks to guarantees. He pointed out that there were a great variety of guarantee types and differing legal frameworks. The solution that has been found by Iberaval, SPGM as well as their partner organizations in Latin America was to set up cooperation agreements between each other. Under the agreements, participating guarantee institutions in the target countries agree to issue international guarantees on the basis of a guarantee application established and submitted to it by the cooperating guarantee society of the SME customer from the originating country. The guarantee is then granted locally in the target country under the relevant legal framework. The risk in case of default continues to be assumed by the guarantee society of the originating country. Similar to the idea of correspondent banking, this is a simple solution to create a workable cross-border guarantee operation despite differing legal framework conditions.
- Mr. Bernard Jéhin presented the services of Sofinex, the export and internationalization subsidiary of Sowalfin, a public SME guarantee institution of the Walloon region of Belgium. On the basis of some examples, Mr. Jéhin demonstrated how Sofinex credit guarantees can help SMEs in their internationalization process. For example; Sofinex grants guarantees to Belgian bank loans to finance payment delays of foreign buyers to exporting Walloon SMEs. Also, Sofinex can give counterguarantees for guarantees issued by Belgian banks on behalf of the exporting SME and to the benefit of the foreign buyer. Another possible situation is a loan guarantee granted to the Walloon mother SME for the establishment of a foreign subsidiary. Besides the guarantee instruments, Sofinex also provides some direct financing for internationalizing SMEs through risk capital or

subordinated loans for up to 50% of investments and a maximum of 10 years.

- **Ms. Zsuzsa Major presented the products and services of Eximbank, the Hungarian Export / Import Bank. It has been established in 1994 as a specialized institution, offering guarantees for import and export transactions of Hungarian SMEs. The guarantees allow favourable fixed-interest rate financing and are backed by the state budget and MEHIB insurance. Its services also include direct or indirect loans, purchase of export receivables and other forms of risk sharing products. Eximbank issues payment guarantees, performance and warranty guarantees, bid bond and tender guarantees as well as advance payment guarantees. Payment guarantees can cover up to 85% of the export transaction.**
- **Mr. Marton Vadasz presented the activities of Garantiqa Hitelgarancia Zrt, a public-private partnership founded by the Hungarian State and banks in 1992 to improve access to finance for SMEs. Garantiqa does not provide any direct export guarantee instruments, since over 75% of Hungarian exports go to other EU countries. However, support is provided indirectly: SME owners can be foreigners, investment guarantees allow SMEs to improve their competitiveness on foreign markets, some guarantees are granted to loans with unrestricted use, such as the Szecheni card, etc. Garantiqa also engages in a micro-credit programme under the JEREMIE Micro Credit Programme.**

The Chairman closed the meeting thanking the organizers, the presenters and the participants of the event.