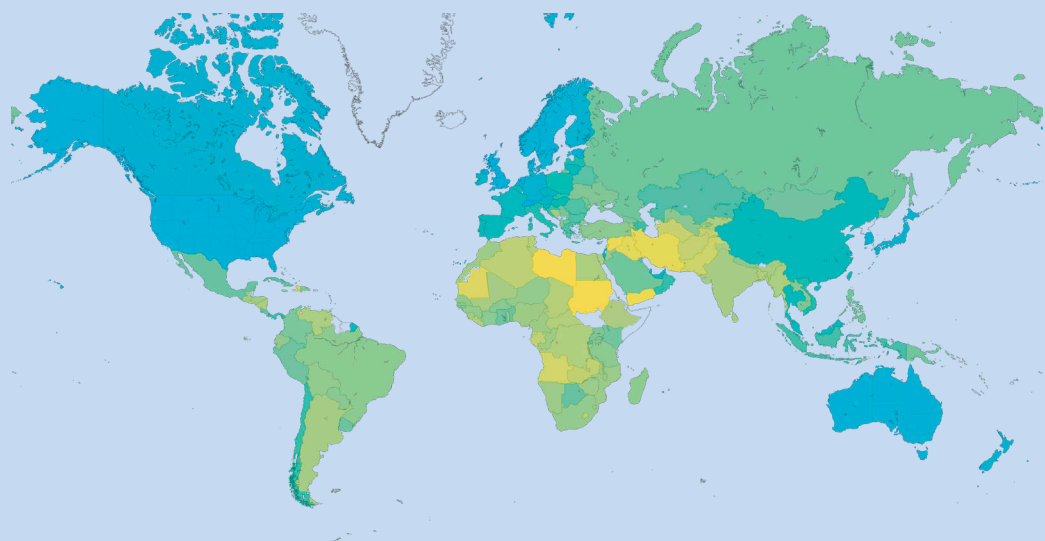


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# ELITE QUALITY REPORT 2021

Small and medium-sized enterprises: The more the merrier but only if productive

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## Small and medium-sized enterprise Indicator Scorecard (SME): The more the merrier but only if productive

The small and medium-sized enterprise (SME, ii.5) Indicator measures SMEs per 1,000 people and is a dataset published by the MSME Economic Indicators Database which records the number of formally registered micro, small, and medium-sized enterprises (MSMEs) across 176 economies. The SME Indicator is associated with a series of positive macro and micro-economic outcomes including GDP growth, a more modern and competitive institutional environment, and inclusive wealth distribution.

SME density is higher in high-income countries, tending to drop as income levels fall. Countries with low incomes usually see lower numbers of SMEs and hence miss out on their potential positive contribution to employment and value added. For example, the instability that Burundi has faced over many years (in last position in the global SME ranking, # 108) has led to the widespread disruption of economic activities and to the existence very few SMEs. A low density of SMEs is associated with poverty and inequality. By providing the right incentives for the creation of SMEs the 'size of the pie' will grow. Predatory elite business models can, however, forestall SME creation by latching onto SMEs and extracting value. Often this transfer occurs via regulation or taxation measures or by denying SMEs resources that are instead channeled to the incumbent elites.

A high density of SMEs is associated with better access to finance. Financial inclusiveness should be a top priority for political elites concerned about long-term economic growth as limited SME access to financial resources negatively affects market competitiveness. Countries suffering from sub-optimal SME access to finance are found in many regions of the world: for instance, in Latin America (Mexico, rank # 78 and El Salvador, rank # 91) and Southern Europe (Greece, rank # 55 and France, rank # 63). Interestingly, Spanish SME owners manage, despite the existence of this important constraint, to lead the SME ranking (the country shares rank # 1 with Ghana and South Korea) as a result of their resilience. Relatedly, higher interest rates on finance result in lower productivity, and SMEs that are penalized in this way have difficulties recovering from economic recessions (such as the current crisis caused by COVID-19). Policy-makers should focus their efforts on providing SMEs with access to financial facilities, improving the terms and conditions of their financing, and fostering a strong financial and banking system to support their development.

Besides finance, policy-makers should also consider lowering the administrative and regulatory burdens faced by SMEs, reducing barriers to starting up new businesses, and implementing tax incentives for SMEs and entrepreneurs. Critically, laws should be passed that encourage a second chance for entrepreneurs, meaning an appropriate bankruptcy regime. In parallel, a culture that tolerates failure motivates nascent business owners to take the initial investment plunge.

Many economists have claimed that Russia (rank # 72) could unlock its tremendous GDP growth potential if only its SMEs were offered broader institutional protections. High SME density is also positively correlated with an entrepreneurial culture and countries with high scores in the Global Entrepreneurship Monitor (GEM) index exhibit a high SME density. That is, using public policy to actively promote SMEs will potentially result in the emergence of entrepreneurial firms that, in turn, will become avenues for new Value Creation in the economy.

On the other hand, there are caveats associated with high SME density that should be noted. SMEs are, at times, not driven by innovation and may be less efficient than large companies. For instance, in Spain, despite the high SME density fostered by the government's Retail Trade Competitiveness Plan and the large construction sector, not all is well. Spain scores below average in the European Commission's SME performance review that assesses countries' progress in implementing the Small Business Act (the EU's strategy to enhance the business environment for SMEs). Likewise, South Africa (rank # 9) has high SME density but low income per capita. SMEs play a strategic role in the development of the South African economy and their numbers have been boosted by the National Development Plan, with new and expanding SMEs largely concentrated in the trading and accommodation sectors. However, SMEs face real difficulties when it comes to business infrastructure, lack of access to markets and to finance. Accordingly, South Africa shows one of the lowest SMEs success rates and owners face huge challenges when attempting to scale-up.

Fiscal exemptions and support for R&D and productive investments by SMEs reflect two types of inclusive policies. The first provides a catalyst that encourages SME entrepreneurialism. The second, equally important policy, ensures that SMEs are efficient and eventually have the chance to scale-up and challenge incumbent elites with more agile and flexible innovative capabilities.

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EQx2021 Indicator Family Scorecard  
**SMEs per 1,000 people**



Sub-Index (L2)	Power
Index Area (L2)	Economic Power
Pillar (L3)	Firm Dominance
Indicator Code (L4)	ii.5_SME
Indicator weight (in EQx)	1.0%
Indicator weight (in Pillar)	20.0%
Countries covered	108
Year of inclusion in EQx	2021
Conceptual optimum	1
Year Used	2019
Data Source	SME Finance Forum, MSME Economic Indicators

**Description**

The SMEs per 1,000 people Indicator is based on a subset of the SME Finance Forum's MSME Database recording the number of formally registered small and medium-sized enterprises (SMEs) per 1000 people in an economy.

**Rationale**

SMEs per 1,000 people is a measure of how distributed an economy is in terms of whether it has a diversity of Value Creation models, enabled by limiting the levels of Economic Power enjoyed by large organizations. SME business models must rely on Value Creation as their low levels of Economic Power don't allow them many possibilities for Value Extraction. As a counter argument, SMEs have been found to be less efficient than large firms and their survival may be indicative of collective power levels. \*An optimal level might be established for this Indicator in the future.

Rank /108	Country	Score	Rank /108	Country	Score	Rank /108	Country	Score
1	Spain	100	51	Denmark	44	101	Morocco	38
1	Ghana	100	52	Romania	44	102	Nigeria	38
1	Korea, Rep.	100	53	United Arab Emirates	43	103	Senegal	38
4	Benin	77	54	Guatemala	43	104	Madagascar	38
5	Moldova	76	55	Greece	43	105	India	37
6	Canada	75	55	Kenya	43	106	Uganda	37
7	Honduras	74	57	Peru	43	107	Pakistan	37
8	Chile	69	58	Costa Rica	43	108	Burundi	37
9	South Africa	66	59	Panama	43			
10	Kuwait	65	60	Kyrgyz Republic	43			
11	Kazakhstan	64	61	Jordan	43			
12	Israel	63	62	Armenia	42			
13	Australia	63	63	France	42			
14	Japan	61	64	Finland	42			
15	Zimbabwe	59	65	Colombia	42			
16	Qatar	59	66	Gabon	42			
17	Uruguay	58	67	Poland	41			
18	New Zealand	57	68	Hungary	41			
19	Malaysia	55	69	Nepal	41			
20	Oman	55	70	Tanzania	41			
21	Venezuela, RB	54	71	Cameroon	41			
22	Switzerland	51	72	Russian Federation	41			
23	Bangladesh	51	73	Bosnia and Herzegovina	41			
24	Estonia	50	74	Iran, Islamic Rep.	41			
25	Albania	50	75	Slovak Republic	41			
26	Lithuania	49	76	Tunisia	41			
27	Norway	49	77	Belgium	41			
28	Ecuador	49	78	Mexico	41			
29	Latvia	49	78	Serbia	41			
30	Slovenia	48	80	Belarus	41			
31	Egypt, Arab Rep.	48	81	North Macedonia	41			
32	Sweden	48	82	Dominican Republic	41			
33	Bahrain	48	83	Mozambique	40			
34	United Kingdom	47	84	Vietnam	40			
35	Sri Lanka	47	85	Ukraine	40			
36	Argentina	47	86	Timor-Leste	40			
37	Bulgaria	47	87	Tajikistan	40			
38	Saudi Arabia	46	88	Paraguay	39			
39	Portugal	46	89	Eswatini	39			
40	Czech Republic	46	90	Haiti	39			
41	United States	45	91	El Salvador	39			
42	Nicaragua	45	92	Philippines	39			
43	Italy	45	93	Turkey	39			
44	Indonesia	45	94	Rwanda	39			
45	Croatia	45	95	Afghanistan	39			
46	Germany	44	96	Cambodia	39			
47	Brazil	44	97	Yemen, Rep.	38			
48	Netherlands	44	98	Sudan	38			
49	Botswana	44	99	Lesotho	38			
50	Cyprus	44	100	Algeria	38			

The Elite Quality Report 2021 (EQx2021) provides Country Scores & Global Rank for 151 countries  
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