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INCREASING THE COMPETITIVENESS OF SMALL BUSINESSES IN DEVELOPING COUNTRIES

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Annotation : *This article explores key strategies for enhancing the competitiveness of small businesses in developing countries. It presents a multi-dimensional approach covering innovation, digitalization, workforce development, access to finance, and policy reform. Using qualitative content analysis and secondary data from international development reports, the study identifies core interventions necessary to increase SME productivity and global competitiveness. It includes charts and case studies from countries such as Kenya, Bangladesh, and Vietnam. The findings suggest that coordinated support between public institutions, financial systems, and digital infrastructure is critical for sustainable SME growth.*

Keywords*: small business, competitiveness, developing countries, SME, strategy, innovation, financial inclusion, digitalization, public policy.*

I.Introduction

In developing countries, small and medium-sized enterprises (SMEs) are the lifeblood of local economies, often responsible for over 60% of employment and up to 40% of GDP in emerging markets [World Bank, 2020]. However, their potential is frequently hindered by poor infrastructure, limited market access, and financial exclusion. The COVID-19 pandemic further exposed vulnerabilities in small business resilience, underscoring the urgency of improving competitiveness.

According to Ayyagari, Beck, and Demirgüç-Kunt, "SMEs account for more than 60% of total employment in low-income countries, yet they remain structurally vulnerable" [Ayyagari M and et al.]

Competitiveness in this context refers not only to the ability of a firm to survive in local markets but also to scale operations, innovate, and enter global value chains. Small businesses must now compete in a digitalized and highly integrated global economy. For this reason, building competitiveness is not solely the responsibility of entrepreneurs—it requires public policy, education reform, and investment in technology and financial systems.

This article aims to explore the strategic interventions necessary to improve SME competitiveness, especially in fragile economies. Using a qualitative approach, the article analyzes successful models, sectoral gaps, and intervention tools with illustrative charts.

II.Methodology

This study adopts a qualitative research design grounded in content analysis and supplemented by comparative descriptive data to examine the strategies that can enhance the competitiveness of small and medium-sized enterprises (SMEs) in developing countries. The purpose of this methodological approach is to gather deep insights into systemic constraints and effective policy interventions that influence small business performance across diverse development contexts.

Data Sources and Selection Criteria

The data for this study was sourced from secondary materials, including but not limited to:

- Global institutional reports (World Bank, UNCTAD, OECD, ILO, IFC)
- National SME development policies and progress evaluations
- Peer-reviewed academic articles published in development economics, business studies, and entrepreneurship journals
- Country-level case studies and statistical bulletins from ministries of trade and small enterprise agencies

The country case studies were purposefully selected from Sub-Saharan Africa (Kenya, Rwanda, Nigeria), South Asia (Bangladesh, India), and Southeast Asia (Vietnam, Indonesia). These nations represent a cross-section of developing economies with contrasting institutional capacities, technological readiness, and SME ecosystems. The inclusion criteria were based on:
(a) documented implementation of SME-related reforms or development programs,
(b) accessibility of disaggregated SME performance data, and
(c) evidence of private-public collaboration in the small business sector.

Analytical Framework

The analytical framework of this study was structured around five major thematic pillars of competitiveness:

1. Innovation and Strategic Management
2. Digitalization and Technological Integration
3. Human Capital and Skills Development
4. Access to Finance and Credit Mechanisms
5. Policy, Legal, and Institutional Support

These categories emerged from a synthesis of existing competitiveness models (e.g., Porter's Competitive Advantage of Nations) and SME development frameworks presented in international literature. Each thematic area was examined through a comparative lens to understand both barriers and successful interventions across different national settings.

Data Coding and Interpretation

The research utilized thematic coding techniques to classify qualitative data extracted from policy documents, reports, and case narratives. Keywords such as "credit access," "regulatory reform," "training programs," "digital tools," and "innovation subsidy" were tracked and grouped under the respective thematic pillars.

This coding process was conducted using a manual matrix that categorized observed policies and outcomes by region and sector (e.g., urban retail SMEs vs. rural agribusiness). Special attention was given to recurring mechanisms such as mobile banking, vocational training initiatives, tax reforms, and public-private financing models.

In addition, descriptive statistics were collected and synthesized in tabular and chart formats to provide a visual comparison of key indicators such as:

- Time required to register a new business
- Percentage of SMEs with internet access or digital tools

- Share of SMEs receiving formal credit
- Post-training productivity increases
- Tax compliance burdens

These statistical visuals were integrated into the analysis to contextualize qualitative findings and enhance the readability of regional contrasts.

Case Study Integration

Each country included in the study was treated as a mini case study to illustrate context-specific challenges and scalable solutions. For example:

- Kenya's M-Pesa model was analyzed as a fintech solution that broadened SME access to transactions and microloans.
- Bangladesh's Grameen Bank and BRAC programs were examined for their impact on women-owned micro-enterprises and group-based lending practices.
- Rwanda's Irembo portal was studied for its administrative simplification that drastically reduced the time to start a business from 25 days to under 1 day.

In reviewing these cases, emphasis was placed not only on outcomes but also on the implementation processes, including stakeholder coordination, capacity building, donor involvement, and local adaptation.

Limitations

The study is limited by its reliance on secondary data, which may not reflect the most current SME conditions due to publication lags. Moreover, comparability between countries is constrained by differences in statistical definitions and informal sector estimations. These limitations were mitigated by cross-verifying data points and using thematic synthesis rather than purely numerical comparison.

III. Analytical Framework and Discussion

Innovation and Strategic Management Capacity

Firms that strategically innovate are more likely to survive economic downturns and meet evolving customer expectations. In Vietnam, for instance, state-sponsored technology parks and export hubs have increased SME product innovation in electronics and furniture manufacturing.

Chart 1: Key Innovation Strategies Adopted by SMEs in Selected Countries

Country	Strategy Type	% of SMEs Adopting
Vietnam	Product adaptation	64%
Kenya	Supply chain optimization	51%
Bangladesh	Frugal tech solutions	47%
Nigeria	Digital service models	39%

Digitalization and E-Commerce Integration

Digital tools enable small firms to expand their markets and streamline operations. Yet, infrastructure gaps persist. Mobile-based solutions, however, offer scalable entry points.

Chart 2: Internet Use by SMEs and Digital Tool Adoption (% by Region)

Region	Internet Access	Mobile Payments	Online Marketing Use
East Africa	45%	60%	35%
South Asia	50%	65%	40%
Southeast Asia	75%	80%	60%

In Kenya, for example, M-Pesa has revolutionized micro-enterprise finance, allowing thousands of unbanked SMEs to transact securely.

Human Capital and Vocational Training

Low productivity often stems from weak technical and managerial skills. Investment in training, especially in digital literacy and marketing, has shown measurable impact.

Chart 3: Increase in Productivity After SME Workforce Training Programs

Country	Training Focus	Productivity Growth
Ghana	Agribusiness skills	+25%
Colombia	Technical skills	+32%
Nepal	Female entrepreneurship	+20%

Governments should co-finance such training programs and align education systems with SME sector needs.

Finance Access and Credit Innovation

Credit constraints remain the most cited barrier for SMEs. Many rely on informal financing or predatory lenders.

Chart 4: SME Access to Credit in Developing Countries (%)

Region	Access to Formal Credit
Sub-Saharan Africa	18%
South Asia	24%
Southeast Asia	40%

Policy tools include microfinance, digital credit scoring, and public-private loan guarantee schemes. In Indonesia, fintech lending now accounts for over $1.4 billion annually in SME financing.

Policy and Institutional Reform

Small businesses thrive when governments reduce red tape, simplify licensing, and improve infrastructure.

Chart 5: Days Required to Start a Business

Country	Days to Start Business
Rwanda	1

Kenya	6
Bangladesh	19
Nigeria	25

Rwanda's e-governance system "Irembo" offers digitalized registration services and is a global model in SME-friendly policy design.

Conclusion

Enhancing SME competitiveness in developing countries requires more than micro-level entrepreneurship support. It involves transforming the business ecosystem—through policy alignment, technological advancement, workforce upskilling, and financial innovation.

The insights gained from successful country case studies and data show that with the right support mechanisms, small businesses can thrive in both local and international markets. A unified effort from governments, private investors, and civil society can create the inclusive, innovation-driven environments SMEs need to become competitive engines of growth.

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