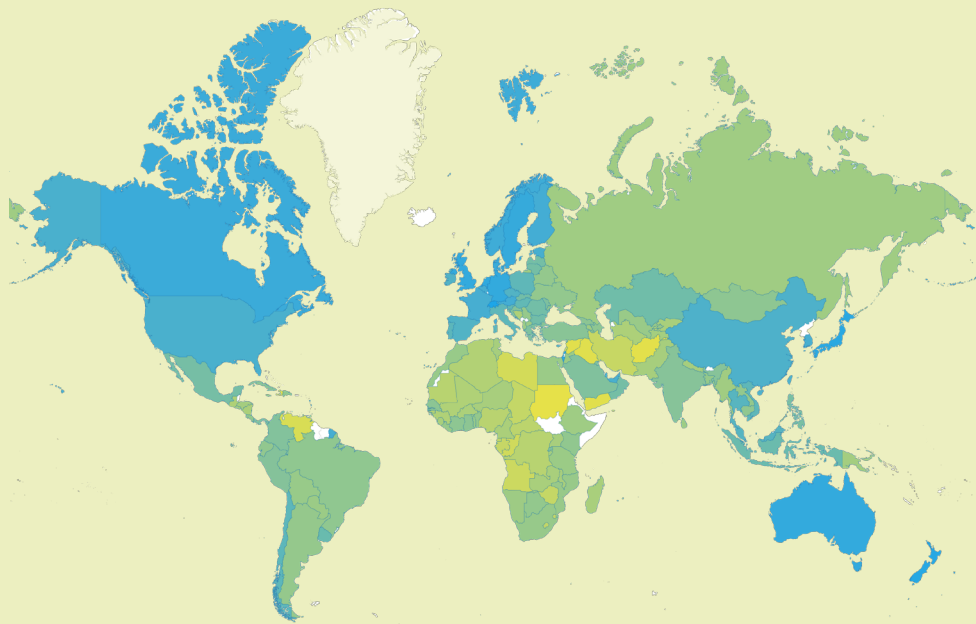**ELITE QUALITY INDEX**
EQx2023

This PDF includes a contribution from the following book:

ELITE QUALITY
REPORT 2023

Small and medium-sized enterprise indicator scorecard (SME): High numbers of SMEs do not necessarily mean high productivity

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Small and Medium-sized Enterprise Indicator Scorecard (SME): High numbers of SMEs do not necessarily mean high productivity

The MSME Economic Indicators (MSME-EI) database records the number of micro-, small- and medium-sized enterprises (MSMEs) formally registered across 176 countries. The comprehensive database is a unique data source that takes into account the variety of definitions for such small companies across economies. The database serves as a basis for the EQx Indicator: *SMEs per 1,000 people* (SME, ii.5).

The number of *SMEs per 1,000 people* is generally lower in countries with correspondingly low income levels (MSME, 2019), while on average, nations that have a higher income per capita enjoy a higher formal SME density (MSME, 2019). The EQx2023 rankings for countries such as Nigeria (rank # 105), Burundi (rank # 108) or Pakistan (rank # 109), all with a low GDP per capita, illustrate this point. Encouraging and supporting the establishment of SMEs is therefore a good way for low-income countries to advance their development.

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An important challenge for high quality elites is to design tax policies and regulations that promote the creation of SMEs by reducing the cost burden. For example, lower levels of bureaucracy and easy access to financing are key elements in the policy portfolio. The Indonesian government (rank # 43) was able to help SMEs by offering them affordable interest rates for investment credits and changing labor laws to incentivize job creation. The low density of SMEs in Poland (rank # 70) compared to the EU aggregate could be improved by reducing the barriers to running a business. Moreover, a more progressive taxation framework in countries with poor SME creation rates such as Hungary and Turkey (ranks # 71, and # 94, respectively) may well favor new business development. Administrative procedures and bureaucratic formalities seem to present a burden for SMEs in Romania, but the country has now developed a more progressive tax system and is closer to EU standards (rank # 53). In this vein, some of the countries with the highest density of SMEs such as South Korea, South Africa and Japan (ranks # 1, # 10, and # 14, respectively) also exhibit a well-balanced and progressive taxation framework.

In terms of access to finance, countries that are well served by financial institutions generally have a higher SME density. Malaysia (rank # 20) provides an excellent example where programs such as bridging financing gaps and providing special financing schemes support SMEs. In contrast, and despite the fact that several different initiatives have been developed and implemented, SMEs in Nigeria (rank # 105) still have virtually no access to funding. Low rates of lending to SMEs could be associated with low SME density in countries such as as Tajikistan (rank # 88), Turkey (rank # 94), India (rank # 106), and Pakistan (rank # 108). Relatedly, high levels of informality seem to be associated with low SME density in countries such as Guatemala (rank # 55) or Cambodia (rank # 97).

One increasing concern for SMEs is the lack of human capital development and upskilling. Indonesia (rank # 43) has addressed this problem by continuously developing programs focused on human capital. Low levels of education, in addition to insufficient entrepreneurship programs, may explain the low relative density of SMEs in Romania (rank # 53), Greece (rank # 56), and Brazil (rank # 49).

Public institutions with strong governance principles seem to exert a positive effect on SME density. Both New Zealand (rank # 19) and Switzerland (rank # 23), do well, while those with lagging governance systems such as Argentina (rank # 69) and Russia (rank # 75), do not.

It is important to emphasize that a high SME density, if taken in isolation, has to be interpreted with caution. For example, among OECD countries, Mexico (rank # 2) exhibits an important productivity gap between the performance of its SMEs and large corporations. It is clear that Mexican SMEs are experiencing a slowdown in productivity growth from existing low levels. In a similar fashion, Moldova (rank # 6) has many SMEs with low levels of product sophistication and economic diversification. This is now being tackled through governmental programs aimed at supporting SME growth and internationalization. Moreover, Honduras (rank # 8) exhibits low levels of efficiency and productivity. Similar issues can be found in countries such as South Africa (rank # 10) and Ghana (rank # 3) with low numbers of successful SMEs

and few competitive advantages present in the SME sector. SMEs are essential for development but not all SMEs raise productivity. Moreover, the number of SMEs in a particular country might be high because structural impediments make it difficult for companies to scale up.

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EQx2022 Indicator Scorecard
SMEs per 1,000 people

Sub-Index (Level 2)	Power
Index Area (Level 2)	Economic Power
Pillar (Level 3)	Firm Dominance
Indicator ref. (Level 4)	ii.5_SME
Indicator wgt. (in EQx)	1.3%
Indicator wgt. (in Pillar)	25.0%
Countries covered	109
Inclusion year	2021
Conceptual optimum	No
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 /109	Country	Score	Rank /109	Country	Score	Rank /109	Country	Score
1	Ghana	100	51	Cyprus	43	101	Algeria	37
1	Korea, Rep.	100	52	Denmark	43	102	Morocco	37
1	Mexico	100	53	Romania	43	103	Nigeria	37
4	Mongolia	89	54	United Arab Emirates	43	104	Senegal	37
5	Benin	80	55	Guatemala	43	105	Madagascar	37
6	Moldova	79	56	Greece	43	106	India	36
7	Canada	78	57	Kenya	43	107	Uganda	36
8	Honduras	77	58	Peru	42	108	Pakistan	36
9	Chile	71	59	Bosnia and Herzegovina	42	109	Burundi	36
10	South Africa	68	60	Costa Rica	42			
11	Kuwait	67	61	Panama	42			
12	Kazakhstan	66	62	Kyrgyz Republic	42			
13	Israel	65	63	Jordan	42			
14	Australia	64	64	Armenia	42			
15	Japan	63	65	France	42			
16	Zimbabwe	61	66	Finland	42			
17	Qatar	60	67	Colombia	41			
18	Uruguay	59	68	Gabon	41			
19	New Zealand	59	69	Argentina	41			
20	Malaysia	56	70	Poland	41			
21	Oman	55	71	Hungary	41			
22	Venezuela, RB	54	72	Nepal	41			
23	Switzerland	51	73	Tanzania	41			
24	Bangladesh	51	74	Cameroon	41			
25	Estonia	50	75	Russian Federation	40			
26	Albania	50	76	Iran, Islamic Rep.	40			
27	Lithuania	49	77	Slovak Republic	40			
28	Norway	49	78	Tunisia	40			
29	Ecuador	49	79	Belgium	40			
30	Latvia	49	80	Serbia	40			
31	Slovenia	48	81	Belarus	40			
32	Egypt, Arab Rep.	48	82	North Macedonia	40			
33	Sweden	48	83	Dominican Republic	40			
34	Bahrain	48	84	Mozambique	40			
35	United Kingdom	47	85	Vietnam	39			
36	Sri Lanka	47	86	Ukraine	39			
37	Bulgaria	47	87	Timor-Leste	39			
38	Saudi Arabia	46	88	Tajikistan	39			
39	Portugal	46	89	Paraguay	38			
40	Czech Republic	46	90	Eswatini	38			
41	United States	45	91	Haiti	38			
42	Nicaragua	45	92	El Salvador	38			
43	Italy	44	93	Philippines	38			
44	Indonesia	44	94	Turkey	38			
45	Croatia	44	95	Rwanda	38			
46	Spain	44	96	Afghanistan	38			
47	Germany	44	97	Cambodia	37			
48	Brazil	44	98	Yemen, Rep.	37			
49	Netherlands	44	99	Sudan	37			
50	Botswana	44	100	Lesotho	37			

The Elite Quality Report 2022 (EQx2022) provides Country Scores & Global Rank for 151 countries
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