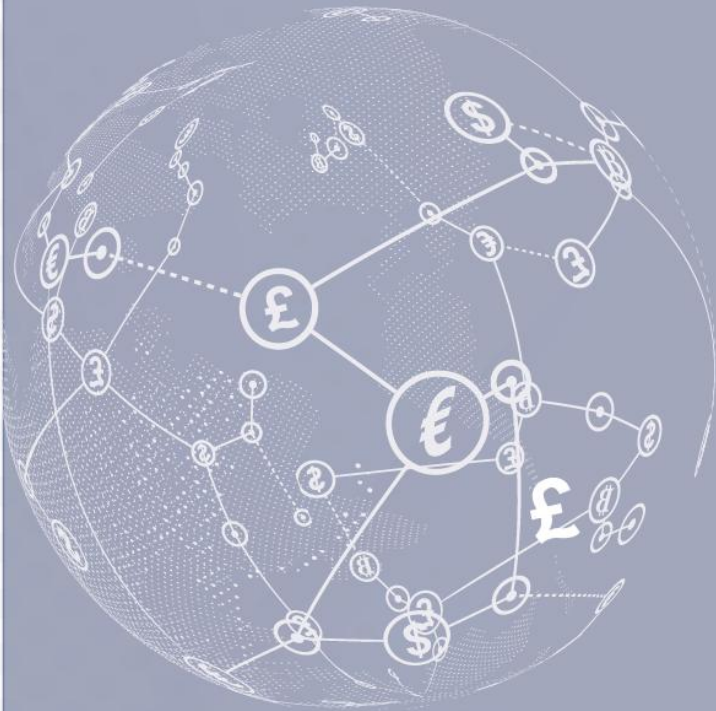




Project funded by the **EUROPEAN UNION**

EBSOMED
ENHANCING BUSINESS SUPPORT ORGANISATIONS

INDUSTRY OUTLOOK



EBSOMED Employers thematic committees

Internationalization of SMEs



Project funded by the **EUROPEAN UNION**

The EBSOMED project is led by BUSINESSMED within a consortium of six partners.

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ASSOCIATION DES CHAMBRES DE COMMERCE ET D'INDUSTRIE DE LA MEDITERRANEE
ASSOCIATION OF THE MEDITERRANEAN CHAMBERS OF COMMERCE AND INDUSTRY
جمعية غرف التجارة والصناعة للبحر الأبيض المتوسط



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الغرفة الألمانية العربية للصناعة والتجارة

Fostering SMEs' INTERNATIONALIZATION in the Mediterranean basin
From an in-depth diagnosis to a practical roadmap

About BUSINESSMED:

BUSINESSMED is the main regional representative of the Private Sector

that reflects the interest of 25 Confederations of Enterprises from States members of the Union for the Mediterranean - UfM.

Since its creation in 2002, BUSINESSMED (Union of Mediterranean Confederations of Enterprises) is a privileged platform for multilateral cooperation for the benefit of 23 the employers' confederations and more than 1'200'000 public and private affiliated companies by promoting foreign direct investments and socio-economic integration in the region.

As one of the main Business support organizations dedicated to multilateral cooperation in the Mediterranean, BUSINESSMED'S mission is to enhance exchanges and strengthen the Mediterranean business ecosystem by reinforcing regional cooperation, social dialogue, and policymaking.

In collaboration with our Members and Partners, our vision of the Mediterranean is one where

- The business ecosystem across the two shores flourish via strong partnerships, and establishment of regional value chains

- Economic development is accompanied by a strong and inclusive social dialogue where different social partners collectively shape

the business ecosystem of the Mediterranean Countries

- Mediterranean Partners collectively and comprehensively address upcoming challenges of the region, building on each other strength to establish a balanced and flourishing business ecosystem

About the expert

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Dr. Imane El Ouizgani is an associate professor, researcher, and an international expert in the fields of human resource management (HRM), gender, and youth & women's economic inclusion through employment and entrepreneurship. She works with national and international organizations in various projects related to employment and youth & women employability and has a thorough knowledge of the actors and structures related to this subject matter.



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Key words:

SMEs' internationalization, Mediterranean basin, challenges and opportunities, roadmap

List of abbreviations

BMZ	German Federal Ministry for Economic Cooperation and Development
CBAM	Carbon Border Adjustment Mechanism
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ENP	European Neighborhood Policy
EU	European Union
EUROMED	Euro-Mediterranean countries or region
FEMIP	Facility for Euro-Mediterranean Investment and Partnership
FTA	Free Trade Agreement
GAFTA	Greater Arab Free Trade Area
GDP	Gross Domestic Product
GVCS	Global Value Chains
MENA	Middle East and North Africa
MSMES	Micro, Small and Medium Enterprises
OECD	Organization for Economic Cooperation and Development
SDGs	Sustainable Development Goals
SEMED	Southern and Eastern Mediterranean region
SMEs	Small and Medium-sized enterprises
TC	Thematic Committee on Internationalization of SMEs
WTO	World Trade Organization

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Introduction

Internationalization of SMEs' activities is recognized as a component of competitiveness as well as a driver of economic growth and welfare. It has been proven that internationally active SMEs experience faster growth than purely domestic firms (Onkelinx & Sleuwaegen, 2008). Nevertheless, the internationalization of SMEs is often limited, both in geographical scope and in terms of the share of international versus domestic activities. This implies that SMEs still have a large untapped potential to grow through internationalization. In fact, studies show that SMEs tend to export less than large companies and do not fully exploit the benefits brought by internationalization (Interreg Europe, 2021). As a result, the Euro-Mediterranean economies are missing out on valuable growth prospects.

Supporting the internationalization of Mediterranean SMEs remains a priority in SME competitiveness policies, as well as one of the most debated and researched subjects among BUSINESSMED's Thematic Committee's projects. The purpose of BUSINESSMED, through this research, is to foster the Euro-Mediterranean's economic competitiveness, innovation, and ultimately its growth by supporting the internationalization of SMEs and helping them access new markets.

The aim of this report is to provide a roadmap to foster SMEs' regional integration in the EUROMED basin. Its ultimate goal is to highlight the major current opportunities and challenges facing SMEs' internationalization, spot the best practices that have proven to facilitate it and provide a set of actionable recommendations based on the results of the desk review and a field study among Mediterranean SMEs, which will help fostering economic inclusion in the region.

In this report, internationalization of SMEs will be approached as an essential part of the economic growth in the Mediterranean region. The first section will cover an overview of the general state of SMEs internationalization in the region we cover. In the second section, we highlight the most pressing challenges but also the current opportunities in internationalizing SMEs businesses, followed by the third section where we present in detail the results of the field study conducted among Mediterranean SMEs and, finally, in conclusion, we present a roadmap or a set of recommendations aimed at facilitating SMEs internationalization in the Mediterranean. All the above not only has implications for SMEs' owners and managers, but also on policy makers and all the entrepreneurship stakeholders.

SMEs' internationalization in the Mediterranean:
***overview of the current
state of affairs***



In recent years, trade has taken an important place in the Mediterranean economy. In fact, it accounts for 35% of GDP in the Mediterranean region and the intra-regional trade market is one of the most important in the world, with +20% of the world's trade in goods in 2018 (UfM, 2021). However, integration has progressed unevenly, across and within the Mediterranean sub-regions, in all policy domains. For example, in terms of trade, the EU is responsible for 94% of the region's merchandise exports. While 70% of all cargo traffic in the Mediterranean is between European ports, only 15% happens between Europe and North Africa, and only 5% is between MENA countries (OECD & UfM, 2021). In fact, although trade between UfM member countries has grown over the past 20 years and its integration into regional value chains has increased, intra-region trade remains very low and, in some cases, non-existent (OECD, 2021). The region's trade openness, defined as the value of exports plus imports over GDP, is at around 68% GDP in 2019, declining from 80 % in 2005, but remains at higher levels than the OECD countries (around 61 %) and middle-income countries (around 49 %) (ILO, 2022).

With this uneven growth in recent years, the internationalization of SMEs has been placed at the heart of reflection and actions of researchers and decision makers in the Mediterranean region. In fact, it has been proven that export oriented entrepreneurship contributes more strongly to macro-economic growth than entrepreneurial activity in general (Onkelinx & Sleuwaegen, 2008). This is the reason why governments in the Mediterranean region have recognized the importance of SMEs' internationalization and have implemented initiatives to support their growth. The latter includes establishing export promotion agencies, providing financial incentives, simplifying trade procedures, offering training and capacity-building programs, and creating business networks and platforms for SMEs to connect with international markets and partners. One other major aspect of fostering SMEs' internationalization in the region is launching various very successful yet fragmented strategies, policies and interventions by country and sub-region, some notable examples are:

1 The European neighborhood policy (ENP) governs the EU's relations with 16 of its closest eastern and southern partners. As a key element of the EU foreign policy, the ENP focuses on stabilizing the region in political, economic and security terms. Source : European Commission , last check 06/27/2023

2 Aims to support investment climate reforms to advance sustainable growth and decent job creation in the Southern Mediterranean. Some of the programme's Key Topics related to our theme are : Regulatory and legal reforms to improve the business environment, Investment promotion and facilitation, Public-private dialogues on supporting investment reforms in key sectors: Sustainable energy and connectivity; MSME financing; Sustainable agriculture; Rural Entrepreneurship and agribusiness; Sustainable cities; Digital for development. Source : OECD , last check 07/14/2023

3 A Union of the EU Member States and 16 Southern Mediterranean countries built on cooperation agreements that aims to promote economic integration and democratic reform across the EU's neighbors to the south in North Africa and the Middle East. Source : European Commission , last check 06/27/2023

4 COSME is an EU program dedicated to improving access to finance, facilitating market access, and fostering competitiveness for SMEs across Europe, including Mediterranean countries (Interreg Europe, 2021).

5 The ENI supports economic development, trade, and investment activities in partner countries in the Mediterranean region, promoting regional integration and cooperation.

6 This EU research and innovation program supports SMEs in developing innovative products, technologies, and services, providing opportunities for international collaboration and market entry.

7 Source : UfM's official website , last check 06/23/2023

European Union (EU) Support:

The EU provides funding and support programs to promote SME internationalization in the Mediterranean region. This includes initiatives such as the European Neighborhood Policy¹, which encourages economic integration and cooperation between the EU and Mediterranean countries. Current and past programs like the EU-OECD Programme on Investment in the Mediterranean², Euro-Mediterranean Partnership³, COSME⁴, European Neighborhood Instrument (ENI)⁵, Horizon 2020⁶ and other EU regional funding programs also offer financial assistance, technical support, and capacity-building measures for SMEs.

Union for the Mediterranean (UfM):

The UfM promotes regional cooperation and economic integration in the Mediterranean. It has initiatives aimed at supporting SMEs, including the UfM Business Development and Employment Promotion Program⁷, which provides financial and technical assistance for SME growth and internationalization efforts. Another project worth mentioning and designed to promote regional cooperation in trade and investment is “UfM Hub for Jobs, Trade and Investment”. A project commissioned by the German Federal Ministry for Economic

Cooperation and Development (BMZ), executed by the UfM from 2022 to 2025 and targeting many MED countries such as Albania, Algeria, Egypt, Jordan, Lebanon, Morocco, Mauritania, Montenegro, Palestinian Territories, Tunisia, Turkey...

Trade Promotion Europe’s support:

It is a non-profit association of national and regional trade and agrifood promotion organizations, whose goal is to strengthen European trade through better coordination and information sharing. Its goal is to advance European exports, support SMEs and empower the community of trade promotion professionals.

Assistance from international and European financial institutions:

Many organizations like the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and other financial institutions provide financial and technical support to Mediterranean SMEs. Their goal is to sustainably improve the financial inclusion of SMEs in the region through direct or indirect financing, the transfer of market know-how to strengthen development and create jobs, and policy dialogue to actively support the development of SMEs’ financing policies.

For example, the EBRD is actively developing open and sustainable market economies and boosting growth in the Mediterranean countries. Its focus has been on making the economies of the southern and eastern Mediterranean region (SEMED) more competitive and resilient, fostering expansion of the private sector, and promoting policy dialogue. Almost half of EBRD's annual investment and banking projects each year are directed at SMEs across the globe. It has helped more than 30,000 small businesses access advisory services - over 2,000 a year- while the financing through partner banks has reached hundreds of thousands more. This means that over €1 billion is channeled to over 300,000 micro and small businesses each year⁸. One of EBRD's active projects for Mediterranean companies is the "Program for the Financial Inclusion of Micro, Small and Medium Enterprises (MSMEs) in the Southern and Eastern Mediterranean Region" specifically targeting Egypt, Morocco, Jordan and Tunisia. The project was launched in 2016 and is scheduled for completion in 2026. We can also cite as an example the "Facility for Euro-Mediterranean Investment and Partnership" (FEMIP), implemented by the EIB, it offers a large range of instruments in support of economic development in the Mediterranean partner countries. Operational since October 2002, FEMIP is now a key player in the financial partnership between Europe and the Mediterranean, with financing operations worth over EUR 14.8 BN⁹.

National and regional initiatives:

Many Mediterranean countries have their own programs to support SME internationalization. These initiatives may include national Export Promotion Agencies¹⁰. In fact, many Mediterranean countries have established national export promotion agencies that offer various services and programs to support SMEs in their internationalization journey. These agencies provide market intelligence, trade missions, matchmaking events, export training, and financial incentives to encourage SMEs to explore and enter new international markets.



International trade fairs and exhibitions:

Participation in international trade fairs and exhibitions is an effective way for SMEs to showcase their products or services and connect with potential international partners. Mediterranean countries host numerous trade fairs and exhibitions dedicated to different sectors, providing SMEs with opportunities to network, build relationships, and explore international business opportunities.

Financial support and incentives:

Governments in the Mediterranean region often provide financial support and incentives to encourage SMEs' internationalization. This may include grants, subsidies, export financing programs, and tax incentives aimed at reducing the financial burden and risks associated with entering international markets.

Business support organizations and networks:

Various business support organizations and networks exist in the Mediterranean region to assist SMEs in their internationalization efforts. For instance, Chambers of Commerce and industry-specific business associations in the Mediterranean region play a crucial role in supporting SME internationalization. They offer services like trade promotion, market intelligence, business networking events, and training programs tai-

lored to SMEs' needs. Also, we can note many Mediterranean Enterprise Networks like BUSINESSMED, established to enhance SMEs' competitiveness and internationalization. These networks bring together companies, research institutions, and other stakeholders to foster collaboration, knowledge-sharing, and joint marketing initiatives and offer mentoring, training, networking events, and advisory services, helping SMEs develop international business strategies, connect with potential partners, and navigate the complexities of international trade.

We should point out that the availability and details of these programs differ by country and sub-region.



Internationalization of Mediterranean SMEs:

Opportunities and challenges



Opportunities:

The Mediterranean region offers significant opportunities for SMEs seeking international expansion. It has a large consumer market, abundant natural resources, and a strategic geographical location connecting three continents. The region is known for its tourism industry, agriculture, manufacturing, and services sectors, which present potential avenues for SMEs' growth and export activities.

First, the Mediterranean region serves as a bridge between Europe, Africa, and Asia, providing a strategic geographic advantage for international trade. SMEs can leverage this location to establish trade links with neighboring countries and explore export opportunities in multiple regions. In addition, it gives access to a large consumer market with diverse needs and preferences. With a population of over 750 million (European Commission et al., 2009), the Euro-Mediterranean market could better stand up to competition from other major emerging markets. SMEs can tap into this market by expanding their operations beyond their domestic boundaries and offering their products or services to a broader customer base.

Also, the Mediterranean represents a rich business environment, favorable for SMEs' growth and development:

- **Tourism industry:** The Mediterranean is a popular tourist destination, attracting millions of visitors each year.

Tourism is then the primary economy sector in the Mediterranean region, representing 30% of global tourism flows and hosting the world's leading tourist destinations (UfM, n.d.) . This presents opportunities for SMEs operating in the tourism sector, such as hospitality, accommodation, travel agencies, tour operators, and specialized services catering to tourists.

- **Agriculture and food products:** The Mediterranean region is known for its rich agricultural resources and diverse culinary traditions. SMEs involved in agriculture, food processing, and the production of traditional and specialty food products can benefit from international demand for Mediterranean cuisine and high-quality agricultural products.

- **Manufacturing and textiles:** The textile and clothing sector plays a key role both in the Mediterranean economies and in trade between the latter and the European Union. It is the leading industrial sector in Turkey and in Tunisia and represents overall 50% of manufacturing exports from the Mediterranean region towards the EU. Conversely, the Mediterranean countries represent important outlets for the European textile industry, whose products are transformed later to be re-exported in the form of garments, towards the West European market (ANIMA investment network, 2004). An important complementarity has thus been created in the sector between the two shores of the Mediterranean. The region has a strong manufacturing base in sectors such as textiles, apparel, footwear, and furni-

ture. SMEs in these industries can explore international markets by leveraging their competitive advantages, such as skilled labor, craftsmanship, and design expertise.

- **Renewable energy and green technologies:** The Mediterranean region has abundant solar and wind resources, making it suitable for renewable energy projects. SMEs specializing in renewable energy technologies, energy efficiency solutions, and environmental services can find opportunities in the transition towards sustainable development and the demand for green solutions...

- Along the same lines of thought, with the rise of IT use, especially after the covid-19 pandemic, the world has witnessed the expansion of the digital economy and e-Commerce and the Mediterranean countries are no exception. In fact, IT use in trade has opened new avenues for SMEs' internationalization. Mediterranean SMEs can leverage digital platforms to reach global customers, establish online marketplaces, and participate in cross-border trade, thereby reducing geographical barriers and expanding their customer base.

It is also noticed that the pandemic is changing global production and trade value chains since Global Value Chains (GVCs) may be moving toward greater

regionalization. As GVCs are reshaped, some SEMED countries could seize nearshoring opportunities (Moreno-Dodson et al., 2021). Due to geographical proximity with the EU, the region can position itself as an attractive investment partner for enterprises looking to strengthen regional supply chains and from SMEs to benefit from this trend. For example, Morocco's automotive sector is the likeliest beneficiary of this new trend because the country is home to subsidiaries of major car makers like Renault and PSA and has become a hub for automakers targeting African and EU markets.

Finally, an important opportunity for Mediterranean countries that are part of neighbors of the European Union (EU) is that they can benefit from various Free Trade Agreements (FTA)¹¹ as well as EU funding programs and initiatives aimed at promoting SMEs internationalization. These programs provide financial support, market access opportunities, and business development services to SMEs looking to expand their operations across borders.

To fully benefit from these opportunities, it's important for SMEs to conduct thorough market research, understand local regulations and cultural nuances, and develop a robust internationalization strategy to seize these opportunities effectively.

¹¹ There are several trade agreements and initiatives involving Mediterranean countries that promote regional economic integration and cooperation: Euro-Mediterranean Partnership (EUROMED): Also known as the Barcelona Process, EUROMED is an initiative launched in 1995 to promote political, economic, and social cooperation between the European Union (EU) and countries in the Mediterranean region.

Agadir Agreement: The Agadir Agreement, signed in 2004, is a regional FTA between four Mediterranean countries: Morocco, Tunisia, Egypt, and Jordan. Its aim is to facilitate trade liberalization and economic integration among the participating countries. Source: Moroccan ministry of Industry and Trade. Last check :07/14/2023.

Greater Arab Free Trade Area (GAFTA): is an agreement among 17 Arab League member countries, including some Mediterranean countries such as Egypt, Tunisia, Algeria, Morocco, and Jordan. Established in 1997, it aims to create a common market with reduced tariffs and trade barriers among participating Arab countries (Abedini & Péridy, 2008).

The European Neighborhood Policy (ENP) and the Union for the Mediterranean (UfM) are also frameworks that promote regional cooperation, including trade-related activities...

¹² Source: European Parliament. Last check: 07/14/2023

Challenges:

Although we presented an important set of opportunities, internationalization can be a challenging process for SMEs operating in the Mediterranean region. While each SME faces unique circumstances, there are some common challenges that many businesses encounter. These include the complexity of dealing with diverse trade agreements, continuing non-tariff obstacles to trade in goods and lack of an adequate regulatory framework for trade in services, inadequate transport and logistics infrastructure, and a business environment that is not supportive enough of firms' ambition to participate in international trade. However, it's important to note that many of these challenges mainly affect countries on the Southern shore. Additionally, numerous SEMED countries lack the statistics needed to assess their ability to take advantage of the megatrends of globalization and digitalization to improve their international competitiveness (OECD & UfM, 2021).

Here are some further details on some of the key internationalization challenges encountered by Mediterranean SMEs:

- **Limited resources:** SMEs typically have limited financial and human resources compared to larger companies (ILO, 2022). Internationalization requires investments in market research, product adaptation, marketing, distribution networks, and establishing local presence. Limited resources can make it difficult
- **Market entry barriers:** SMEs often face barriers when entering new markets. These can include legal and regulatory complexities, trade barriers, customs procedures, and licensing requirements. Navigating these barriers can be time-consuming and expensive for SMEs with limited resources. These barriers impact the intra-regional trade activity.
- **Gaps in infrastructure:** The UfM progress report on regional integration underlines that regional infrastructure projects are important for enhancing integration in the UfM region, especially by increasing the connectivity of Southern and Eastern Mediterranean economies. However, it also indicates that despite progress, infrastructure in the region remains insufficient or incomplete in this part of the Mediterranean. In fact, current levels of investment are not enough to meet the growing connectivity needs between countries and the MENA region will require investments of over 7% of its annual regional GDP for maintenance and the formation of in-

infrastructure. Some other challenges of a lack of connectivity include not only the lack of proper infrastructure but also a lack of a harmonized regulatory framework at the national and sub-regional levels. Countries in the Southern Mediterranean region are well endowed with renewable energy sources, but power supplies remain undiversified, and energy relations with Europe are still based on oil and gas. These factors are inhibiting the ability to develop connectivity in the region. To improve infrastructure integration, it is vital to increase investments in the development of high-quality transport and energy infrastructure, and to cooperate on the usage of international tools and instruments to ensure quality, compatibility and interoperability of networks across the region. The report recommends that the capacity and efficiency of ports should be improved to boost their role as national or regional gateways, linking them with inland areas, special economic zones, and research centers and universities (UfM, 2021).

- **Political and economic stability:** The Mediterranean region has experienced political and economic volatility in some countries. SMEs expanding into these markets tend to consider the geopolitical landscape, regulatory changes, and economic stability to mitigate risks and make informed decisions. Taking that into consideration and, as part of its efforts to foster the economic stability in the region, the EU announced in 2021 that it would invest €150 billion in the African continent over the next six years

as part of the Africa-Europe program¹². It aims to support African industry and business in their green and digital transformation. Soon, this investment will translate into more prosperous and stable economies for the target countries, their Mediterranean neighbors and also for investors.

- **Adaptation to the new European green deal standards:** With the new European Commission placing at the heart of its mandate the project of the EU Green Deal, and the plans to implement a Carbon Border Adjustment Mechanism (CBAM), there is an opportunity to accelerate the energy transition in the SEMED countries. In fact, CBAM is designed to prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation, while ensuring World Trade Organization's (WTO) compatibility. It is a strategic tool for the SEMED countries, but only if it is combined with a just energy transition. For the time being, its introduction could essentially mean additional tariffs, impeding on the SEMED countries' exports to the EU (Moreno-Dodson et al., 2021).

- **Competition:** Entering new markets means competing with established local and international players. SMEs must differentiate themselves from competitors, develop effective marketing strategies, and offer unique value propositions to gain market share. Without a strong competitive advantage, SMEs may struggle to penetrate new markets.

- **Logistics and supply chain management:** Managing logistics and supply chains across borders can be complex, especially for SMEs with limited experience in international trade. Issues such as transportation, customs clearance, warehousing, and inventory management require careful planning and coordination to ensure efficient operations.

In addition to the aspects described above, the European Union (2014) highlights the following microlevel problems confronting Mediterranean SME:

- The difficulty of identifying foreign business opportunities;
- Not enough information to locate/analyze markets;
- Inability to contact potential overseas customers;
- The difficulty of obtaining reliable foreign representation;
- Lack of managerial time to deal with internationalization;

- Not enough and/or untrained staff...

Overcoming all these challenges requires strategic planning, market research, partnerships with local stakeholders, access to specialized knowledge and support networks, and a willingness to adapt to new market conditions. SMEs can seek assistance from international organizations, business development agencies, trade associations, chambers of commerce, and internationalization programs to enhance their chances of success in international markets.

To conclude, while it is a fact that SMEs in the Mediterranean region face challenges, they also have great opportunities for internationalization. Government support, EU initiatives, digital and green transformations, collaborative networks, and a focus on sustainability and innovation are contributing to SMEs' efforts to expand their operations and access international markets. Continued efforts to address challenges and promote favorable business environments can further enhance SMEs' internationalization prospects in the region.



Promoting SMEs' internationalization:

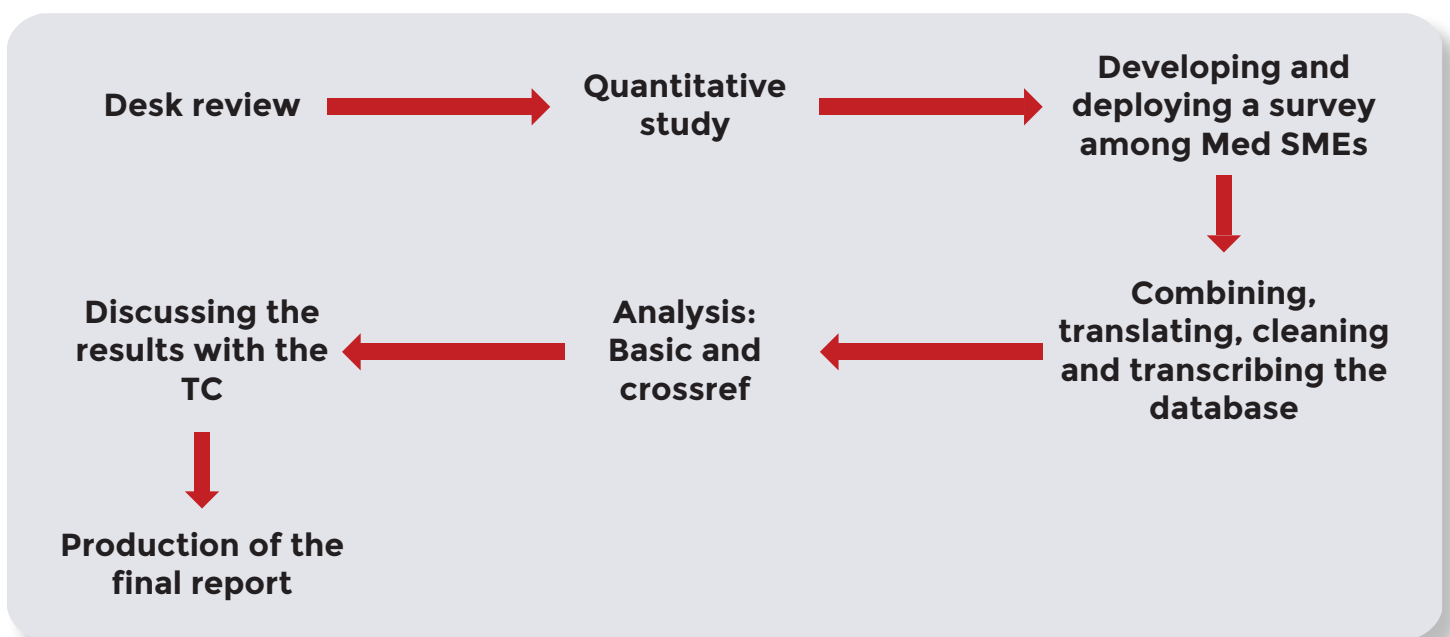
Findings from BUSINESSMED's field study



The purpose of this research is to provide an overview and analysis of SMEs internationalization realities in the Euro-Mediterranean region, with a particular emphasis on the current challenges, opportunities they face, as well as possibilities of improvement. The goal is to come up with practical and realistic recommendations that can be implemented to foster SMEs' internationalization in the Mediterranean basin. To do so, the Thematic Committee (TC) on Internationalization of SMEs has commissioned the present study to identify a set of best practices and guidelines to foster the internationalization of SMEs and promote growth and intra-Mediterranean trade. It will ultimately serve as a roadmap for recovery from current crises (war in Ukraine, Covid 19...).

To accomplish this, we used a quantitative methodology. The survey was administered online among SMEs from several Mediterranean countries and included 31 questions, 4 of which were identification questions, and the rest are questions revolving around identifying challenges and opportunities facing Mediterranean SMEs internationalization nowadays, as well as practical solutions to improve their access to the Mediterranean market. The diagram below describes in detail the various steps of the research methodology used:

Figure 1: Research methodology



Source: Prepared by the author

Our sample comprises SMEs already operating internationally (52% of the sample), with market shares in international markets ranging from 2% to 100%.

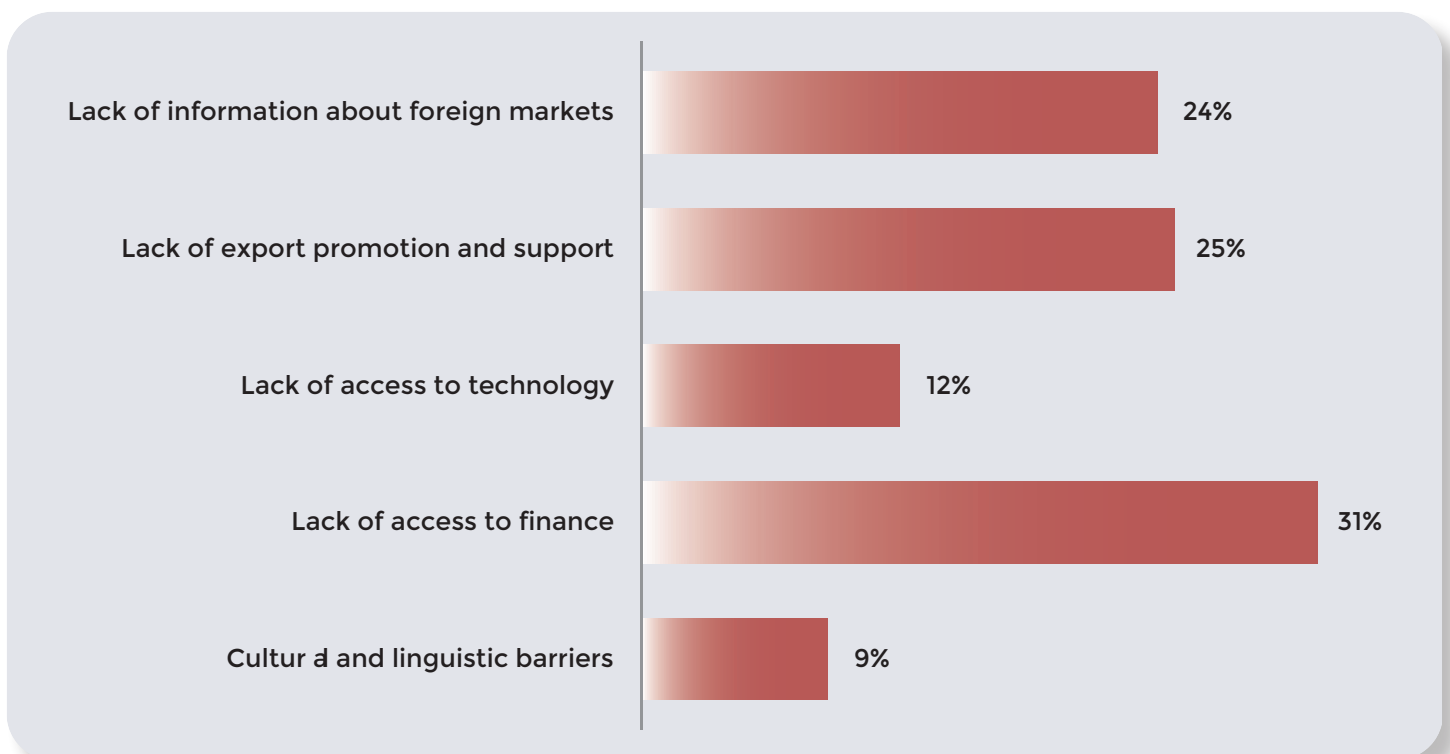
¹³ Social impact investing provides finance to organizations addressing social and/or environmental needs with the explicit expectation of a measurable social, as well as financial, return. It thus aims to foster economic development while achieving social outcomes. It is one way of channeling more resources towards the SDGs. (Source : OECD)

¹⁴ Crowdfunding is a novel method for funding a variety of new ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals, often in return for future products or equity. (Mollick, 2014)

1. Challenges in SMEs' internationalization in the Mediterranean

As stated in the preceding section, one of the most serious difficulties confronting SMEs in their internationalization is access to capital. This is confirmed by our field findings, since financial resources account for 31% of the barriers to SMEs' internationalization. They are followed by the lack of access to information about other Mediterranean markets and the lack of export promotion and support (24 and 25%).

Figure 2 : Challenges hindering SMEs' internationalization



Also, our respondents highlight particularly the following challenges:

- Difficulties of access from south to north, especially visa difficulties (cumbersome and costly) for southern entrepreneurs willing to operate internationally with the decrease in European visa acceptance.
- Extremely complicated export process & very unsupportive banking system.

- Lack of networking opportunities between companies of different Mediterranean countries.

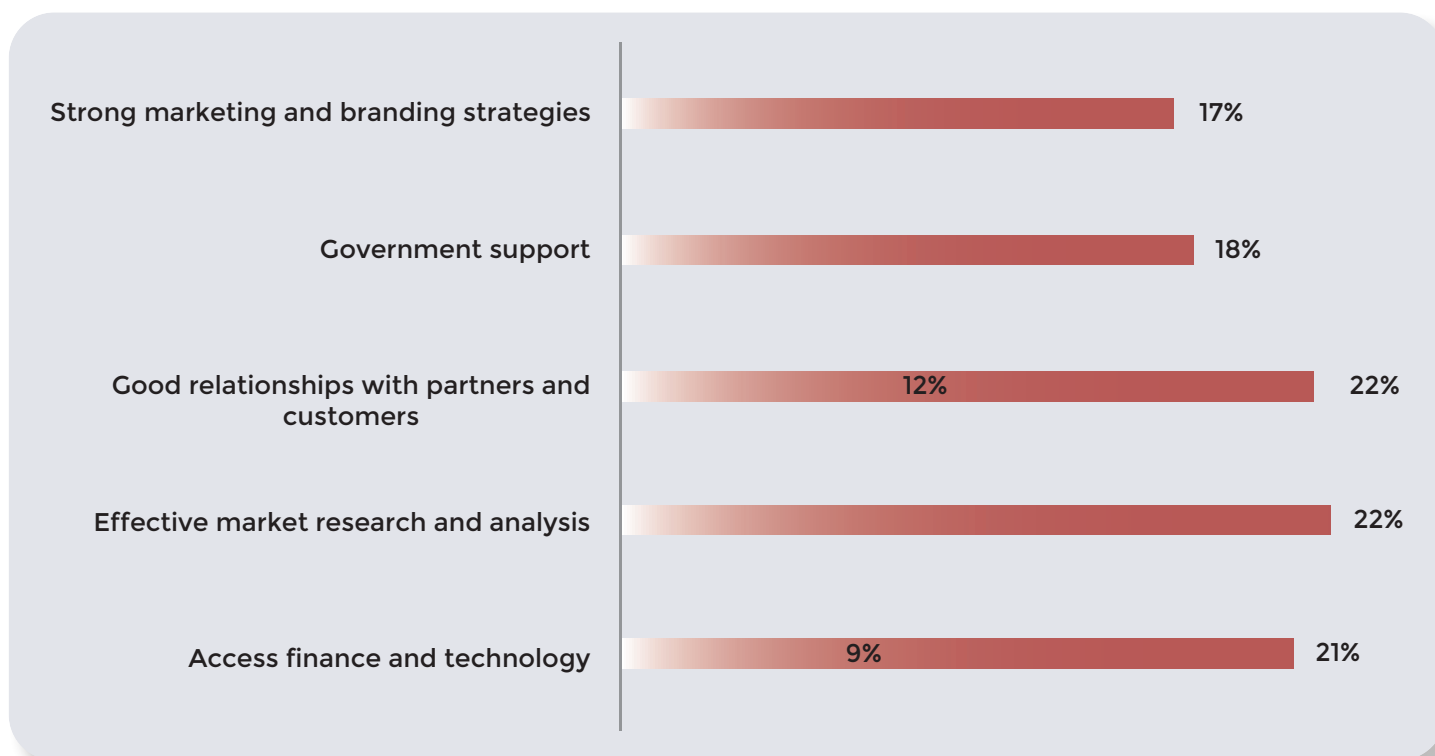
The recent crisis made the situation even more difficult for Mediterranean entrepreneurs. In fact, 25% of the responses mention that it led to more difficulties in traveling, 25% note a notable decrease in access to finance and 21% mentioned a decrease in the demand for exportation from international clients as well as

a drop in their clients purchasing power. The recent political, economic and health crisis led to notable changes in global value chains (big shortage in raw materials and increases in their prices).

2. *SMEs' internationalization's success factors:*

To succeed their international operations, SMEs mention the importance of conducting prior market research (22%), establishing a good relationship with customers and partners (22%) and participation in professional networking events and forums. Also, providing enough financial resources is noted as one of the major success factors of SMEs' internationalization (21%) which highlights the importance of creating a banking and financial system supporting SMEs in the internationalization endeavors.

Figure 3 : SMEs' internationalization success factors



In order+ to improve the international entrepreneurship ecosystem and prevent or reduce the impacts of the recent health and political crisis on the economic sphere, entrepreneurs suggest focusing on EU value-chains in which SMEs in the region have a comparative advantage (agrifood 32%, renewable energy 25% and textiles 17%). Also, it is recommended to shift towards e-Commerce and use the numerous available digital platforms (29% of responses) and to provide more access to financial resources and promote export promotion (24%).

Figure 4 : Recommendations to improve SMEs' internationalization.

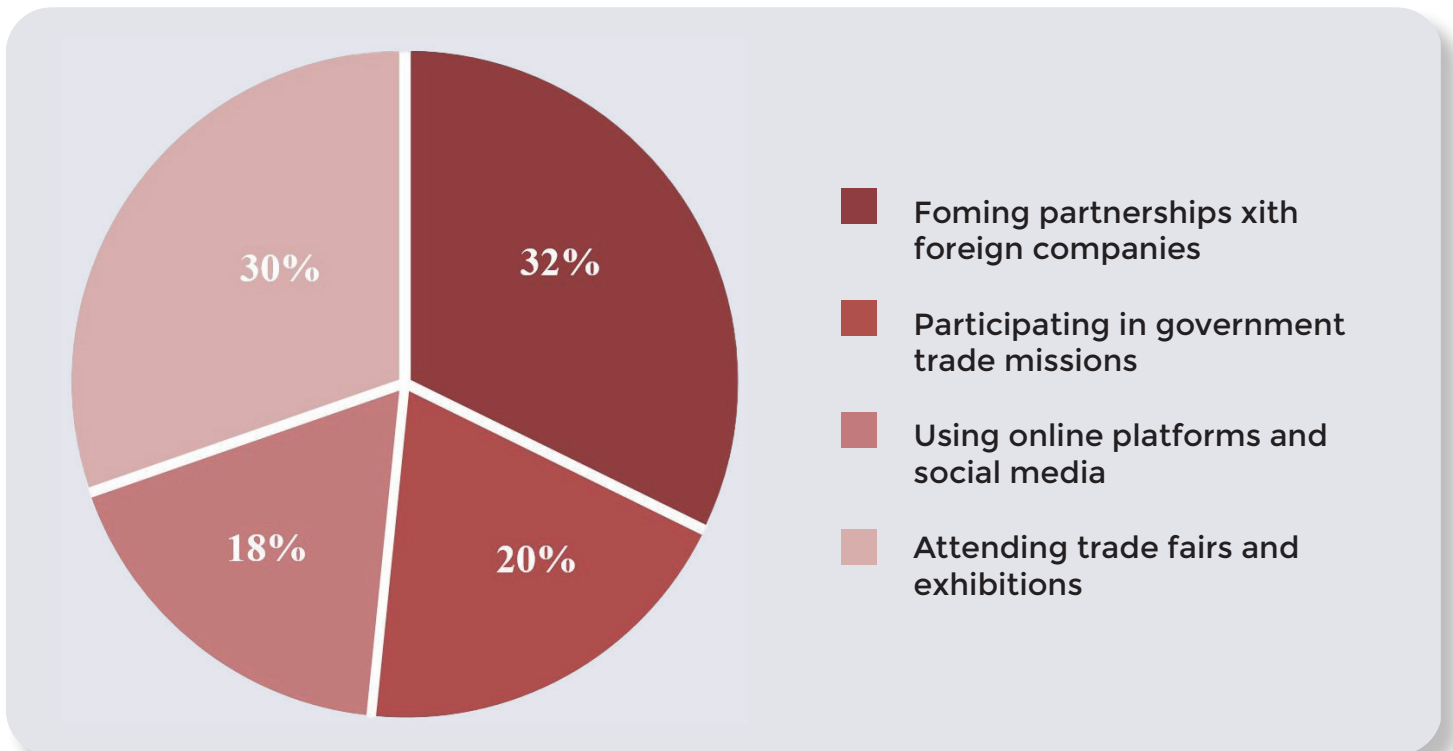


Regarding the financial resources, relying on the traditional financial tools is no longer sufficient nor serving SMEs looking for internationalization opportunities. In fact, 55% of our respondents stress the importance of using impact investing¹³, 24% mentioned peer to peer lending and 21% mentioned crowdfunding¹⁴ as an alternative financial resource.

To facilitate access of local SMEs to international markets, 32% of our survey respondents stress the importance of forming strategic partnerships with foreign companies, partly by attending international trade fairs and exhibitions (30%).



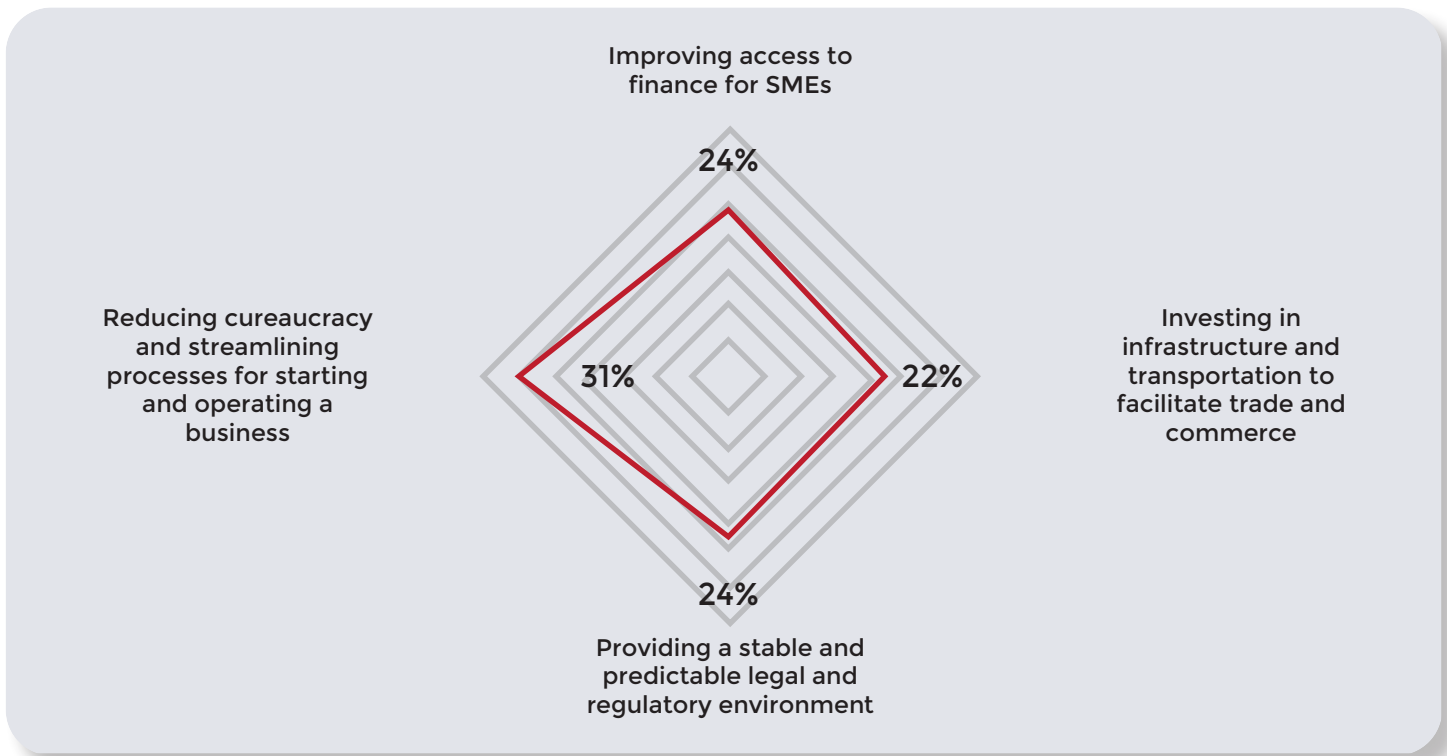
Figure 5 : Approaches to better access international markets



Forming these strategic and beneficial partnerships can sometimes be difficult for smaller companies, and participating in international exhibitions can be costly for them... The solution would be to provide tailored advantages to SMEs (financial assistance, technical support, invitations to facilitate acquiring visas...), in order to facilitate their participation in these international events. Another major aspect mentioned by our respondents is facilitating export/import procedures as well as those for acquiring visa for entrepreneurs from southern countries, which is the most important role of the governments in all mediterranean countries (see figure 6).

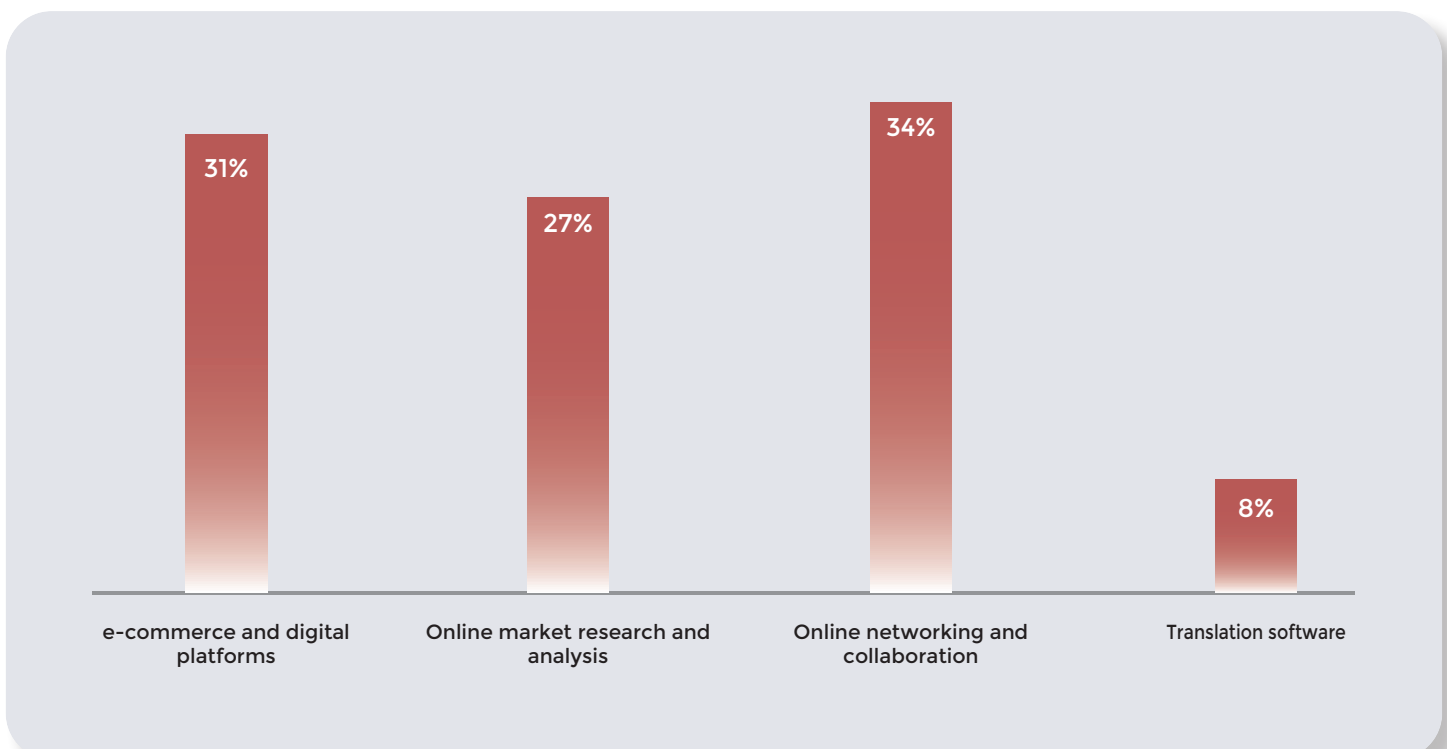
15 Source: BUSINESSMED's BCD official website. Last check: 07/03/2023.
16 Here are some of their answers written in an open-ended question related to the governments' intervention:
"No action taken by the government".
"Nothing of these (actions), even the program easy export was shut down due to lack of funding." (Tunisian respondent)
"Nothing improved and became worse."
"I don't believe the government is doing anything tangible.... the taxes alone and the inflation ... has been enough for many SMEs to close shop."
"They may take steps but not synchronized with the other parts of the government" ...

Figure 6 : Governments' role in improving the business climate for SMEs in the region



Also, this is one more reason to use digital tools by organizing online networking and collaboration events (international exhibitions and fairs online), launching e-Commerce businesses and digital platforms as well as conducting online market research and analysis.

Figure 7 : Use of technology and SMEs' internationalization



Conclusion:

Recommendations to foster the internationalization of SMEs in the Mediterranean region



When it comes to the internationalization of SMEs, research shows that there are several best practices that can help their facilitate successful expansion into international markets. Some key best practices include (European Union, 2014; Interreg Europe, 2021; Moreno-Dodson et al., 2021; OECD & UfM, 2021):

Macrolevel:

- Fostering access to finance and providing funding solutions. In fact, throughout our desk review and field study, we noticed clearly that financial resources are commonly mentioned as a major barrier for SMEs in relation to their internationalization efforts. This matter should be treated as a priority in order to foster SMEs internationalization in the region.
- Easing visa requirements and signing bilateral and/or regional agreements on labor and education mobility.
- Nurturing the spirit of entrepreneurship, innovation, and competitiveness by offering customized support. Developing new tools and schemes and developing a regional collaborative approach is mandatory to succeed in this endeavor.

- Investing in human capital and capacity building.
- Harnessing the benefits of IT use. In fact, one success story worth mentioning is BUSINESSMED's Country Desk (BCD). It is an online information service, designed to assist and stimulate trade and investment mainly in ten Southern Mediterranean countries, as well as to initiate and develop North-South or South-South business partnerships between Mediterranean economic operators through the Regional Markets¹⁵.
- Regarding the green deal, the SEMED countries and the EU will need to collaborate to achieve a win-win situation. Harmonized energy policies will be essential for these nations to establish robust energy sectors that can both meet their own needs and contribute to supplying the EU market without generating additional costs for southeast SMEs. Also, establishing green fiscal stimulus packages can provide an immediate boost to these economies while building the foundation for long-term sustainable growth. This would allow the region to develop to its fullest potential its renewable energy treasure, while unlocking the sustainable socio-economic benefits of a clean energy transition.



Microlevel:

- Developing collaborations and partnerships: SMEs in the Mediterranean region can explore collaboration and partnership opportunities with other SMEs, industry associations, research institutions, and international networks. Collaborative efforts can enhance competitiveness, share resources and knowledge, and open doors to new markets and business opportunities.
- Conducting better market research: The goal is to identify target markets with high growth potential, favorable business environments, and demand for the company's products or services. Analyzing market trends, competition, customer preferences, cultural differences, and regulatory requirements is mandatory to develop an effective market entry strategy.
- Adaptation: By tailoring local products, services, marketing messages, and business practices to suit the specific needs and preferences of the target market. Adapting to local languages, cultural sensitivities, legal requirements, and market demands increases chances of acceptance and market penetration.
- Developing a robust financial plan to support international expansion: by assessing the financial resources required for market entry, product adaptation, marketing activities, distribution channels, and ongoing operations. Exploring funding options, government grants, export financing, and partnerships with

financial institutions is essential to secure necessary capital.

- Identifying appropriate distribution channels that align with the target market and product characteristics. Exploring direct sales, e-commerce platforms, local distributors, agents, or partnerships with established retailers to ensure efficient and widespread market reach.
- Value proposition: Communicating a clear value proposition that highlights the unique features, benefits, and advantages of the products or services compared to competitors.
- Continuous learning and adaptation: By embracing a learning mindset and being open to feedback and adaptation. Monitoring market dynamics, customer feedback, and competitive landscape to identify areas for improvement and make necessary adjustments to the companies' internationalization strategy.
- Compliance with all relevant laws, regulations, and standards of the target market, including export/import regulations, customs requirements, product certifications, and taxation policies. Seeking legal advice and ensuring compliance is important to avoid legal complications or trade barriers.

Recommendations from our field study:

All the previously mentioned recommendations were also heavily stressed by the Mediterranean SMEs that took part in our research. In fact, the top two solutions suggested are facilitating access to financial support and improving the quality of market research and analysis (see figure 4).

On top of all the mentioned practical recommendations, in an open-ended question of our questionnaire, 22% of our poll respondents believe that governments in many Mediterranean nations should

be more involved in improving the local SMEs' capacities and to help them navigate the complexities of international trade¹⁶. This should be a priority as the governments' help is the basis on which other actions can be added.

By incorporating these best practices into their internationalization strategies, Mediterranean governments and SMEs can enhance their chances of success in expanding their operations into new markets. However, it's important to note that each market is unique, and adapting these practices to specific circumstances and industry dynamics is crucial for achieving sustainable growth.



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