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Ad-hoc Expert Group Meeting on Co-operation  
between Industrial Enterprises from Developed  
and Developing Countries

*11p.*

Vienna, Austria, 18-20 December 1989

REPORT

*51*

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## INTRODUCTION

1. With its conversion into a specialized agency, a new mandate was given to UNIDO to increase the promotion of direct international co-operation between enterprises in developed and developing countries. New activities are thus being developed to promote international industrial co-operation at the enterprise level and to generate fresh resources for the industrialization of developing countries. Such activities complement traditional UNIDO technical co-operation activities financed from United Nations resources.

2. To increase the flow of technical, managerial and financial resources from enterprises of developed to those of developing countries, new promotional activities designed to strengthen international industrial co-operation should be pursued. The Ad hoc Expert Group Meeting on Co-operation between Industrial Enterprises from Developed and Developing Countries was designed with that end in view.

3. The objective of the Meeting was to advise the UNIDO secretariat on possible ways and means of extending its industrial co-operation programme through enterprise-to-enterprise activities, and to provide the Organization with practical recommendations on the development of new activities to promote international industrial co-operation at the enterprise level.

## I. CONCLUSIONS

### General aspects

4. An entrepreneur might decide to embark upon international enterprise-to-enterprise co-operation for a variety of reasons, foremost among which are the following: expansion of existing production; updating or replacing existing technology; acquisition of technical know-how to achieve improvements in quality, productivity, product design, standardization etc.; access to licensing; improved marketing and market opportunities; avoiding protectionism; and promoting management proficiency and rehabilitation.

5. International industrial co-operation between small- and medium-scale enterprises can be analysed in terms of the following different categories of producer, thus providing a possibly useful basis for the promotion of international enterprise-to-enterprise co-operation:

(a) Components producers seeking co-operation with their main customers;

(b) Producers of specialized goods moving offshore when exports are restricted;

(c) Engineering and high-technology firms going abroad to transfer their technologies, since their main competitive advantage is in design, and not so much in manufacturing;

(d) Producers of consumer or traditional products moving offshore mainly to adapt to changing macro-economic conditions in developed countries and to profit from lower labour and raw material costs.

6. International enterprise-to-enterprise co-operation cannot be looked upon by developing countries as a substitute for adequate macro-economic policies. The greater relevance of certain macro-economic conditions to small- and medium-scale enterprises than to large firms must be taken into account. Small- and medium-scale enterprises are usually unable to influence governments by taking special measures to ease the negative impact of some macro-economic policies.

7. No particular branch appears to predominate in the analysis of different industries. Information and communications technology, however, is becoming an important factor in all industries.

8. Motives beyond profit-making are becoming important for initiating international co-operation, especially in small- and medium-scale enterprises. In that connection, it might be of interest that the personal involvement of the partners is a significant aspect of enterprise-to-enterprise co-operation.

9. Besides technology transfer proper, the capacity to absorb the transferred technology determines the ultimate success of enterprise-to-enterprise co-operation. Moreover, the importance of the transfer of technology as a process rather than a one-time deal should be noted, because recipient countries are primarily interested in final products rather than in the delivery of turnkey plants.

10. The effectiveness of UNIDO in enterprise-to-enterprise co-operation will depend on the ability of the organization to keep a balance between the constraints of its constitution and business requirements.

### Financial aspects

11. Enterprise-to-enterprise co-operation, particularly in the supply of working capital, can be severely hampered by a lack of financing. Such co-operation should be regarded as a process requiring direct business involvement, including the provision of risk capital. Schemes facilitating the provision of funds can make an important contribution to the success of the endeavour. Grants, in combination with soft loans, could also be instrumental.

### Promotional aspects

12. Banks in developed countries, in particular general service banks, by identifying and screening potential partners among their clients, could be important partners in enterprise-to-enterprise co-operation. The promotion of such co-operation through national federations and associations in developed countries might be another effective mechanism for reaching potentially interested entrepreneurs.

13. The role of UNIDO in the promotion of enterprise-to-enterprise co-operation might cover the different activities of the whole project cycle, depending on the needs of the potential partners.

14. The possibilities for co-operation would increase if large enterprises in developing countries could be convinced of their long-term interest in supporting small- and medium-scale enterprises through direct management assistance. The scope for co-operation could also be increased through tripartite arrangements, both geographical and institutional.

### Operational aspects

15. Enterprise-to-enterprise co-operation generally requires support from manufacturers in their entrepreneurial capacity rather than as suppliers of equipment. In that connection, the importance of contractual arrangements, possibly through UNIDO, should be stressed.

16. A key aspect of successful enterprise-to-enterprise co-operation relates to how the benefits are perceived and realized by the partners.

## II. RECOMMENDATIONS

17. UNIDO should give priority to small- and medium-scale enterprises, in view of their important role in economic development.

18. UNIDO should exploit the fact that it remains the only United Nations organization with a mandate to deal directly with industrial enterprises. It should therefore consolidate its current lead within the United Nations system in dealing directly with the private sector by designing workable partnerships for enterprise-to-enterprise co-operation between the public and private sectors.

19. In view of the current trend towards privatization in developing countries, UNIDO should seek to play a role in the identification of suitable partners through the initiation of contacts at government level. The Organization is in a unique position to win the confidence of Governments and potential partners in the business community.

20. UNIDO might wish to carry out further studies of the potential for the development of new forms of enterprise-to-enterprise co-operation, and pursue research on the main factors influencing the decision of enterprises to explore such co-operation with developing countries.
21. UNIDO might consider organizing workshops at country level on enterprise-to-enterprise co-operation, with the participation of small- and medium-scale industries, business associations, chambers of commerce and industry, development banks, international financial and development institutions and other potential partners.
22. UNIDO should pursue its promotional activities through a network of organizations in donor countries and developing countries. It could broaden the scope of its Investment Promotion Services towards industrial co-operation, and, in selected developing countries, make use of the co-ordination machinery of donors to promote enterprise-to-enterprise co-operation at the country level. More active involvement of UNIDO Country Directors in the promotion and support of local entrepreneurs for such co-operation would also be advantageous.
23. The most demanding partners for UNIDO in its co-operation programmes will be enterprises from developed countries, for which commercial considerations are paramount. UNIDO should therefore create a promotional tool in the form of a service or product useful to those companies, and simplify its procedures for entering into direct arrangements with private enterprises. Furthermore, there is an urgent need in some developed countries to provide government support to small- and medium-scale enterprises for co-operation with enterprises from developing countries. UNIDO could try to promote such support through its member Governments.
24. Enterprise-to-enterprise co-operation should include co-operation between institutions. A variation of North-South co-operation could also include South-South elements in a tripartite arrangement.
25. Projects financed by the United Nations should make greater use of international enterprise-to-enterprise co-operation. UNIDO should actively support projects with vocational training involved as part of such co-operation, and assist in co-ordinating the role of donors in both industrial rehabilitation and the design of new, market-oriented industrial policies.
26. UNIDO should allocate funds within its Regular Budget to promote enterprise-to-enterprise co-operation. It should also investigate the possibility of gaining access, through World Bank structural adjustment loans, to funds to be used as working capital for such co-operation. UNIDO might play a role in facilitating the use of funds provided by Governments of developed countries for the establishment of partnerships with entrepreneurs in developing countries. It could also try to promote the insurance of risk capital by Governments of developed countries.
27. UNIDO might design a system for promoting joint ventures with local banks in developing countries, using grants as a guarantee for commercial loans to industrial enterprises. Such a system would have several advantages, such as a leverage effect and the involvement of bankers in the search for local partners. UNIDO could also help to ensure that feasibility studies are initiated by serious promoters and based on sound business plans. Furthermore, as soft loans to promote industrialization in developing countries are often available but not used, UNIDO could be instrumental in channelling such loans into enterprise-to-enterprise co-operation.

### III. ORGANIZATION OF THE MEETING

#### Date and venue of the Meeting

28. The Meeting was held at Vienna from 18 to 20 December 1989.

#### Attendance

29. The Meeting was attended by 18 experts from 15 countries and one United Nations Secretariat unit. The list of participants is given in annex I.

#### Opening of the Meeting

30. The meeting was opened by the Director of the Industrial Co-operation and Funds Mobilization Division, who stressed the importance of the development of new activities for enterprise-to-enterprise co-operation. He mentioned, inter alia, the three major aspects of the UNIDO enterprise-to-enterprise programme, in particular the provision of:

- (a) Direct support to manufacturing industries in developing countries;
- (b) Services to development finance institutions in developing countries;
- (c) Services to donor agencies and companies for programme and project management.

#### Election of officers

31. The Meeting unanimously elected the following officers:

Chairman: Victor Pratt  
Vice-Chairman: Marinus Piek  
Rapporteur: Wolfgang Mayerhofer

#### Adoption of the agenda

32. The Meeting adopted the following agenda:

1. Opening of the meeting.
2. Election of officers.
3. Adoption of agenda.
4. Presentation of background papers.
5. Presentation of issue paper.
6. Short introductory statements by the participants.
7. Discussion of the issues.
8. Conclusions and recommendations.
9. Closure of the meeting.

#### List of documents

33. The documents before the Meeting are listed in annex II.

#### Organization of work

34. The experts were requested to consider specific issues, namely energy and the environment, human resource development, industrial rehabilitation,



transfer of technology and small- and medium-scale enterprises, and to focus, in particular, on the comparative advantages of UNIDO in the promotion of industrial co-operation, in order to develop new activities in that field.

35. Three background papers and an issue paper provided the basis for the discussions. The background papers entitled "Enterprise-to-enterprise co-operation in the manufacturing sector" (PPD/144) and "The role of national and international finance institutions in the promotion of enterprise-to-enterprise co-operation" were briefly introduced, and the participants gave an account of their experience and background in co-operation at the enterprise level. The meeting continued with a discussion of the items of the issue paper, followed by agreement on the conclusions and recommendations.

Annex I

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Annex II

LIST OF DOCUMENTS

**Enterprise-to-enterprise co-operation in the manufacturing industry (PPD/144)**

**The role of national and international finance institutions in the promotion of enterprise-to-enterprise co-operation**

**Enterprise-to-enterprise co-operation in the field of information and communication technology**

**Issue paper**