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Working Paper No. 15

Private Sector Development:

**The Support Programmes of the
Small and Medium Enterprises Branch**



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Private Sector Development:

The Support Programmes of the Small and Medium Enterprises Branch

by

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Director, Small and Medium Enterprises Branch



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Small and Medium Enterprises Branch
Programme Development and Technical Cooperation Division

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The SME Technical Working Papers Series is a series of occasional papers arising from the work of the Small and Medium Enterprises Branch of the Programme Development and Technical Cooperation Division (PTC/SME) of UNIDO. It is intended as an informal means of communicating important insights and findings from the technical cooperation and research activities of the Branch to a wider public of interested development practitioners, policy-makers and academics. Comments and suggestions on the issues raised in these papers, which may be addressed to:

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EXECUTIVE SUMMARY

Many factors contribute to the strength or weakness of a country's private sector. Efficient and competitive private sector firms do not develop solely because of their own internal capabilities. While innovative entrepreneurs, skilled managers, a dedicated and well-trained work force, and efficient administrative and operational procedures are important for the development of competitive private sector firms in a country, their number, size, and efficiency are affected by a host of external factors. Initial requirements are, in general, an overall "enabling environment" and specific policies, incentives and support services that promote private sector development.

After an introductory chapter, the present paper elaborates on the role of the private sector as engine of growth for poverty reduction. In the following chapter, it reviews UNIDO's approach to achieve productivity enhancement of SMEs, followed by an overall examination of the development contributions and functions of SMEs. While Chapter V establishes the rationale for supporting SMEs, Chapter VI analyzes UNIDO's own target-oriented support strategy in this field. The final chapter provides concise summaries on the six specific support programmes which are applied by the Small and Medium Enterprises Branch to sustain private sector development in development countries.

CHAPTER I:

Overall Context of Private Sector Development¹

In most countries, the private sector accounts directly for 85 to 90 percent of GDP, with the remaining percentage produced by government activity, which in turn is financed by taxes that depend heavily on the results of private sector growth. Rising standards of living essentially depend on how well the private sector in a developing country performs.

Performance of the private sector is closely tied to how well a country promotes the development of new businesses, how much and how fast existing businesses are able to grow and become more efficient, and how well enterprises that sell in international markets compete. Economic growth, alone, of course, is not the only consideration: both equity and environmental considerations are important as well to ensure sustainable economic development.

Development of a strong private sector is a complex process, with many factors contributing to the strength or weakness of a country's private sector. Efficient and competitive private sector firms do not develop solely because of their own internal capabilities. While innovative entrepreneurs, skilled managers, a dedicated and well-trained work force, and efficient administrative and operational procedures are important, the number, size, and efficiency of enterprises in a country are affected by a host of external factors. Generally, a private sector needs an overall "enabling environment" that allows private firms to operate efficiently, and specific institutions and policies that promote private sector development. The following are some of the more important factors affecting the size, characteristics, and strength of the private sector:

- **Political and social stability:** The private sector requires a conducive political and social environment in order to operate most efficiently. Political and social institutions such as public administration systems, judicial systems, schools, hospitals and the like provide an environment for sound economic development.

¹ This Chapter draws on UNIDO, Capacity-building for Private Sector Development in Africa (PSD Technical Working Paper No. 3), Vienna, 1999.

- **Physical Infrastructure:** The size, characteristics, and efficiency of the private sector depend very much on the infrastructure in place. Public investment in infrastructure “crowds in” private investment.
- **Macroeconomic stability:** A key to economic growth is prudent economic management that avoids volatility and uncertainty. Policies that lead to high inflation, excessive taxation, distorted factor prices, or lack of foreign exchange discourage business formation and investment.
- **Financial System:** An efficient financial system is an important component of economic development, in mobilizing savings and channeling them into investments. For private sector firms, it serves an additional purpose besides providing them credit: a means of enforcing discipline on firms that borrow.
- **Competitive Market:** Competition promotes efficiency, and policies that promote intense, but fair, competition will result in a strong private sector. Competition policy, privatization, and public sector procurement policies all can help make markets competitive.
- **Regulation:** Regulation of the private sector is necessary to insure competition and fair trade, but unnecessary regulation burdens the private sector and leads to fewer enterprises, less efficient enterprises, and reduced competition. Appropriate regulation is essential for a robust private sector.
- **Legal Framework:** Business, like society in general, needs to operate under the rule of law. No strong private sector can exist unless an adequate legal framework exists in which to resolve disputes and facilitate efficient transactions, as well as to protect property rights.
- **Policy framework:** Various policies, even those not directly related to the private sector, can affect the growth and size of the private sector. Important policy areas include tax and trade regimes, regulation and registration procedures, customs procedures, education and training programmes, and policies specific to SMEs. In particular, policies that unnecessarily constrain businesses need to be eliminated.
- **Access to resources and support services:** Entrepreneurs need access to financing, information, and various types of support services to create and operate businesses, and enterprise managers need similar access to operate their businesses in the most efficient and competitive manner. The existence of institutions, such as universities, consulting firms, accreditation and standardization bodies, and vocational training institutes can play major roles in private sector competitiveness.

CHAPTER II:

Poverty Reduction through Private Sector Development

Reducing poverty is a shared objective of the international community. The Millennium Declaration of the United Nations stipulates the target of halving the proportion of the world's poor, whose income is less than one dollar a day, from 29 per cent to 14.5 per cent of all people in low and middle-income economies by 2015 (MDG 1). Another goal of the Millennium Declaration is to promote gender equality and empower women as effective ways to combat poverty, hunger and disease (MDG 7).

Efforts are currently underway in some 80 developing countries and countries with economies in transition to prepare Poverty Reduction Strategy Papers (PRSPs) that propose to put in place macroeconomic, structural and social policies and programmes to promote growth and reduce poverty. Within the PRSP process, it is recognized that poverty is a multi-dimensional phenomenon that can only be addressed by complementary action aimed at (a) providing economic opportunities and growth prospects for the poor, (b) strengthening their capabilities, (c) reducing economic and social vulnerability and (d) ensuring effective empowerment to participate in policy-making processes and institutions. The role of a strong private sector is often emphasized, in particular as the engine for growth. At the same time, enhanced efforts need to be undertaken to root the growth process in dynamic local economic structures, i.e. to trigger a bottom-up growth process that connects to the needs, capacities and aspirations of the population at large.²

While recognizing the challenge constituted by the urban poor, in particular rural development and regionally balanced development must be regarded as key elements of strategies to reduce poverty and create productive activities that provide income and employment opportunities for the poor. Yet, these elements have historically been neglected, and resources and policies have tended to be biased in favour of urban development. This has led to a precarious imbalance in the development process, with detrimental effects on both rural and urban areas. However, the growing numbers of rural poor seeking work in overcrowded cities stretch social and physical infrastructure and economic opportunities in the urban areas beyond their capacity.

² See UNIDO, *Industrialization, Environment and the Millennium Development Goals. The New Frontier in the Fight Against Poverty* (Industrial Development Report 2004), Vienna 2004, chapter 3.

As a result of the weak operating environment for business ventures in most developing countries, potential entrepreneurs resort to economic activity outside the legal system (informal sector) for generating income. This both limits potential benefits for the micro entrepreneur (e.g. access to finance and support services) and hinders the growth of the formal sector by draining resources and reducing the tax base.

It is the considered view of UNIDO that the evidence of economic stagnation in many developing countries, in particular in most Least Developed Countries (LDCs), is intrinsically linked to the insufficient attention paid to the development contribution of industry, above all manufacturing. Without enhancing the role of industry, a sustainable path of economic development will not be achieved. It is industry – more than any other productive sector – that drives the economic growth process, provides a breeding ground for entrepreneurship, fosters technological dynamism and associated productivity growth, creates skilled jobs, and, through inter-sectoral linkages, establishes the foundation for both agriculture and services to expand. Furthermore, prices of manufactured exports are both less volatile and less susceptible to long-term deterioration than those of primary goods thus providing the potential for sustainable export growth and integration into the global economy.

In a nutshell: unless competitive production is built up, unless supply-side capacities are created, unless domestic entrepreneurship is nurtured and linked to international investment and technology flows, the developing countries will be unable to benefit from liberalized trade and reduce poverty.

In summary, UNIDO's response to the global poverty challenge, as expressed in the Organization's medium-term programme framework and in its corporate strategy, assigns a key role to the build-up of local productive capacities in a private sector-led bottom-up growth process:

“A vibrant private sector – with enterprises making investments, creating jobs and improving productivity – promotes growth and creates opportunities for poor people. In developing countries and transition economies it is the local firms – small and medium enterprises (SMEs) – which are responsible for most economic activity that has interface with productivity enhancement and poverty alleviation. This is particularly the case in the field of agriculture-based economies in Africa and LDCs, where most of the poor people are living and for which the development of agro-based SMEs would contribute to poverty alleviation, while at the same time enhancing productivity.”³ UNIDO Medium-term Programme Framework, 2004 – 2007, document GC.10/14, 20 October 2003, page 7, para 32.)

This is in line with the growing recognition that the private sector is the key driver of economic development, both in terms of foreign direct investment and in terms of domestic industry. Therefore, as also expressed by the UN Commission on the Private

³ UNIDO Medium-term Programme Framework, 2004 – 2007, document GC.10/14, 20 October 2003, page 7, para 32

Sector and Development, it is imperative that the forces of productive entrepreneurship be fully unleashed in the developing countries and effectively combined with the power of globally operating corporations within broader development-oriented partnerships.⁴

⁴ Commission on the Private Sector and Development, *Unleashing Entrepreneurship, Making Business Work for the Poor*, March 2004
See also: UNIDO/UNDP/UN Global Compact Office, *Partnerships for Small Enterprise Development*, Resource Document for Joint Workshop, New York, January 2004

CHAPTER III:

UNIDO's Focus for Private Sector Development: Promoting Productivity Enhancement of SMEs

Chapter I highlighted the wide range of activities and issues that affect the private sector in a country. Some factors are political, social, or cultural, not primarily economic. Even among primarily economic factors, there is a wide range, from macro-economic to policy level to institutional and firm-level factors. As a result, responsibility for private sector development in a country rests in many entities, both within the private sector and the public sector.

Individual firms, of course, are ultimately responsible for their own success or failure, but the efficiency and effectiveness of private sector associations and networks, chambers of commerce, testing laboratories, management consulting firms, and other service providers plays an important role in enterprise competitiveness. Many public sector agencies and institutions are involved as well. Ministries of Finance and the Central Bank, through both fiscal and monetary policies, affect private firms greatly; Ministry of Education policies help determine the supply and calibre of labour force skills; Ministry of Science and Technology policies may determine the direction and level of commercial research and development; the customs administration, investment promotion agency, and export promotion agency may play major roles in the private sector's trade efforts. These, and many other, institutions play roles - positively or negatively - in the development of the private sector of developing countries.

Just as there are many entities in a country that have mandates that affect private sector development in different ways, there are different mandates among multi-lateral institutions that address private sector development in developing countries. The IMF, World Bank, IFC, OECD, many UN agencies, and a host of bi-lateral donors, along with universities, consulting firms, and other institutions, provide technical assistance to developing countries in private sector development. Each has its own mandate and a particular profile of assistance that it provides.

UNIDO does not provide technical assistance in all of the activities that comprise the process of private sector development. Fiscal and monetary policy, development of telecommunications and other utilities, banking sector reform, and judicial reform are

examples of important areas of activity that affect private sector development, but which UNIDO plays no part in. Instead, UNIDO, as the UN agency responsible for industrial development, concentrates its support for private sector development in three areas:

- Promoting improvements in the general business environment, except for areas mentioned above, for private firms;
- Supporting the institutions, private and public, that regulate and promote the private sector;
- Providing access to resources and support services that private sector firms require to become more competitive.

In doing this, the focus is clearly on small and medium enterprises (SMEs). While large firms are certainly important parts of all private sectors, UNIDO support to them is limited to improving the enabling environment of the country, through Enabling Framework/Institutional Support projects. Large firms have adequate resources to address their own constraints and do not require much other support. SMEs, on the other hand, are often at a great disadvantage, *via-a-vis* the larger firms, in terms of their ability to address market failures, government failures, and their own isolation.

Therefore, UNIDO's private sector development efforts are focused on overcoming the constraints that SMEs face in enhancing their productivity. These constraints relate essentially to their limited access to the technologies, skills, information and knowledge that can trigger and sustain growth and capability upgrading.⁵

UNIDO is particularly concerned that its support to developing countries in these three areas be provided in an integrated manner. For that reason, much of the private sector development work in UNIDO is integrated with work done for specific sectors, especially agro-industrial sub-sectors, or for specialized programmes, such as trade facilitation, technology transfer, or cleaner production.

The remainder of this paper describes the rationale for the approach, especially the focus on SMEs, the strategy for technical cooperation programmes, and the major support programmes that UNIDO's Small and Medium Enterprises Branch offers.

⁵ See UNIDO, *Developing Industry: Productivity Enhancement for Social Advance*. UNIDO's Corporate Strategy, Vienna, August 2003.

CHAPTER IV:

The Role and Importance of SMEs

Today, to assert that private sector SMEs are the main driver of equitable economic and industrial development is just stating the obvious. The vast majority of countries – developed and developing alike – rely on the dynamism, resourcefulness and risk-taking of private enterprise to trigger and sustain processes of economic growth.

In overall economic development, a critically important role is played by micro, small and medium enterprises which, on average, make up for over 90% of enterprises in the world and account for 50-60% of employment – in particular in the developing world: “SMEs are *the* emerging private sector in poor countries, and thus form the base for private sector-led growth.”⁶

While being important at all levels of development, empirical studies have clearly shown that at the lower income levels typical of developing countries, the prevalence of SMEs is particularly pronounced. Also, as average income increases, the firm size distribution typically moves upwards, with the share of micro-enterprises (and hence the informal sector) going down and that of more sophisticated medium enterprises rising.⁷

The proper definition of SMEs has been the subject of considerable debate. Obviously, it varies from country to country, depending on the purpose for which the definition is used, the overall level of economic development (a large enterprise in Viet Nam may be considered a small one in Japan) and using different criteria like employment or capital invested. Generally however, in most developing economies the following broad categories would appear to apply:

- Micro enterprises: employment level below 10;
- Small enterprises: employment level from 10 to 49;
- Medium enterprises: employment level from 50 to 249.

⁶ Hallberg, K., A Market-Oriented Strategy for Small and Medium Scale Enterprises, IFC Discussion Paper 40, Washington 2000, p.5.

⁷ See Snodgrass, D.R./Biggs, T., Industrialization and the Small Firm. Patterns and Policies, International Centre for Economic Growth, 1996.

UNIDO uses the term ‘SME’ to refer to firms in these three categories. What is critically important, however, is to recognize that different types of enterprises require different types of support services: A specific target group orientation is a precondition to selecting appropriate policy measures and technical cooperation programmes for them (see Chapter VI).

Because SMEs make up a predominant share of the private sector, and because they have specific characteristics and potentials that distinguish them from larger enterprises, special attention needs to be given to their role in the development process. There is a rich body of research on the development contribution of SMEs. While not entirely without some controversial areas, there is widespread agreement on the following points:

- SMEs (partly because of the industrial sub-sectors and product groups covered by them) tend to employ more labour-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of SMEs that individual countries and the international community at large can make progress towards reaching the Millennium Development Goal of halving poverty levels by the year 2015.
- There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by alleviating ex-post redistributive pressure and by reducing economic disparities between urban and rural areas.
- SMEs are key to the transition from agriculture-led to industrial economies as they provide simple opportunities for value-adding processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.
- SMEs are a seedbed for entrepreneurship development, innovation and risk-taking behaviour and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.
- SMEs contribute to the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.
- Such linkages are of increasing importance also for the attraction of foreign investment. Investing trans-national corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors.⁸

⁸ UNCTAD, World Investment Report 2001. Promoting Linkages, New York and Geneva, 2001.

- SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

As the above non-exhaustive list demonstrates, the development contributions of small enterprises are varied and can be found at the intersection of economic and social dimensions as well as at both micro and meso (sectoral/regional) levels of growth and development. In a summary perspective, two aspects deserve special attention:

- SMEs foster economic cohesion by linking up with, and supporting larger enterprises, by serving niche markets and in general by contributing to the build-up of systemic productive capacities.
- SMEs foster social cohesion by reducing development gaps and disparities, thus spreading the gains of economic growth to broader population segments and backward regions.

There is a topical debate on the need for a new development agenda, an agenda that goes beyond the simplistic prescriptions of the so-called Washington Consensus. Emphasis is now placed on broader development objectives (both economic and social), on strengthening institutional frameworks (both the financial architecture and business support services), on fighting marginalization (both within countries and globally) and in general on making growth processes more sustainable (both environmentally and socially).⁹ A strong and vibrant small enterprise sector would appear to be a conducive factor, if not a precondition, to achieve the much-needed transition towards such a sustainable growth path.

⁹ See Stiglitz, J.E., *More Instruments and Broader Goals: Moving towards the Post-Washington Consensus*, WIDER Annual Lectures 2, January 1998; Magarinos, C.A./Sercovich, F.C., *Gearing Up For a New Development Agenda*, Vienna 2002; Ocampo, *Rethinking the Development Agenda*, in: *Cambridge Journal of Economics*, Vol.26 (2002), pp.393-407.

CHAPTER V

Rationale for Supporting SMEs

As shown in the previous section, the important developmental role of SMEs is beyond doubt. However, the fact that SMEs are a critical part of the private sector and contribute greatly to economic development, both in terms of economic growth and in terms of equity, does not automatically qualify SMEs for special treatment or, more importantly, for subsidization. What is UNIDO's rationale for supporting SMEs as part of public policy interventions?

The first point to be made is that small enterprise development needs to be seen as an integral element of overall economic and industrial development – and not as a *sui generis* subject matter. As is the case with large enterprises, also small enterprises can only prosper within a healthy economy and a conducive overall policy framework. This includes the encouragement of entrepreneurship through facilitating the start-up of business ventures. Here, transparent and simple regulatory regimes are essential, in particular as the costs of complying with complex regulations (in terms of registration, licences, taxes, etc.) tend to be regressive, i.e. compliance costs per employee are significantly higher for small compared to larger enterprises.¹⁰

In other words: a favourable operating environment for small enterprises needs to be ensured. This does not mean, however, that they necessarily require subsidies or special benefits. While subsidized loan programmes, free consulting services, special procurement policies and market reservation schemes were fixtures of SME policy frameworks in the past, there is a growing recognition that these enterprises are best served by having a largely neutral policy environment. Therefore, policies now focus on removing constraints to SME development rather than on providing special privileges to them.

This, however, does not imply that governments can afford to ignore the size distribution of enterprises. As argued above, SMEs blend economic with social dimensions and can contribute significantly to equity objectives. Therefore, the existence of a thriving small enterprise sector responds to broader societal objectives, to a 'public good' that can be defined as achieving long-term political and social stability. This is obviously not a

¹⁰ OECD, *Fostering Entrepreneurship*, Paris 1998, pp.64-65.

relevant concern within a strict market logic within which properly functioning markets by definition deliver efficient resource allocations. However, neither do markets account for long-term societal needs nor do they, by themselves, generate distributional equity.¹¹

In addition, there are market failures working to the detriment of SMEs, which often have limited access to resources and limited bargaining power. They cannot afford the degree of internal specialization that would allow them to carry out on their own, functions like market research, technology adaptation or trade fair representation. At the same time, many of them do not command the resources required to buy specialized support services from commercial providers at prevailing market rates. And finally, in many poorer, often rural regions where micro enterprises are struggling for survival and modest growth, the required business development services are either not available at all or delivered by poorly staffed agencies with limited capacities and competence. In such situations, effective service providers need to be built up and pilot services tested as a precondition to develop broader markets for business development services.

Another issue relates to the cost-effectiveness of support measures. Both government resources and donor funds are limited and need to be spent with a view to achieving maximum impact. Based on solid research, it has been suggested¹² to focus SME support measures on (a) those enterprises that have demonstrated their capacity to survive and grow within at least a two-year period, (b) assistance to enterprises in the same industrial sub-sectors, (c) networking buyers and sellers with emphasis on improving market information, and (d) functional synergies between existing support schemes without establishing new costly institutions.

¹¹ “ The economic theory of perfectly competitive markets takes careful account of ‘market failures’ in the forms of externalities, public goods, and so on; and begins by abstracting entirely from the equity of income distribution and the distribution of power.” (Helleiner, G.K., *Markets, Politics and Globalization: Can the Global Economy Be Civilized?*, in: *Global Governance*, Vol. 7(2001), p.246.)

¹² See Mead, D.C./Liedholm, C., *The Dynamics of Micro and Small Enterprises in Developing Countries*, in: *World Development*, Vol.26 (1998), pp.61-74.

CHAPTER VI

UNIDO's Target-oriented Support Strategy

Small enterprises in their various manifestations have become the target of countless policy statements, incentives packages, financial support schemes, business development services, special programmes and initiatives – both by developing country governments as well as bilateral and multilateral donor agencies. However, many of these efforts have suffered from a lack of clarity of purpose, unclear definition of objectives, failure to identify target enterprises, ineffective implementation and insufficient measurement of impact.

Within UNIDO's approach, it is considered critically important to respond to the needs of different target groups when it comes to designing and implementing small enterprise support schemes. Clearly, the specialized needs of sophisticated medium-sized information technology enterprises are worlds apart from the basic support requirements of rural micro-enterprises in food-processing.

UNIDO's strategy as to the specific types of programmes that it offers, and to the type of technical cooperation project that it will provide in a given situation, is illustrated in the following matrix (to be read horizontally). This matrix links various types of support programmes to concrete target groups. It goes without saying that this matrix presents a highly stylized picture with blurred boundaries. That said, it provides a rationale for the types of programmes that UNIDO offers in its private sector and SME development programme, and also provides a useful tool for better defining support services in relation to target groups.

Target Group	Primary Development Objective	Key Challenge	Main Market Orientation	UNIDO Support Programmes	
Medium	“Fair” globalisation	Competitive insertion into national and global value chains	Regional and Global export markets	Promotion of Corporate Social Responsibility & Business Partnerships SME Export Consortia	SME Enabling Framework & Institutional Support Information Services
Small	Sustainable local development	Creating the “missing middle”	National market and first attempts in export markets	Cluster and Network Development	
Micro	Poverty reduction	Moving from survivalist into growth mode	Local markets	Rural and Women Entrepreneurship & Human Security	

While the matrix is largely self-explanatory, a few key points are highlighted below:

- Achieving international competitiveness is the ultimate objective for more sophisticated medium-sized enterprises (and for many small ones as well; again, boundaries are somewhat blurred). For these, becoming linked up to larger enterprises (national prime manufacturers or transnational corporations, TNCs) can be an effective mechanism to get inserted into broader value chains. Various types of subcontracting arrangements can be used to promote ancillary industries, preferably within technological specialization schemes where small enterprises complement the capabilities of large enterprises rather than producing the same products.¹³ Such schemes, while to a great extent emerging out of market forces, can be especially promoted through support mechanisms, such as public-private partnerships (see below). Resulting benefits would essentially include a deepened local rooting of foreign direct investment in developing countries and thus, ultimately, a less shallow globalization process. Forging such local linkages and spread effects within long-term, stable and trust-based relationships, can certainly be considered as one essential dimension of corporate social responsibility, which is increasingly being demanded from TNCs.¹⁴
- At the other end of the spectrum, we have to consider the special requirements of micro enterprises catering to highly localized markets, often as part of the informal sector. They engage in simple, mostly agro-based processing operations thus providing employment and at least a subsistence income to their owners and employees, often in rural areas. Here, the key challenge is not achieving

¹³ See UNIDO, *Integrating SMEs in Global Value Chains. Towards Partnership for Development*, Vienna 2001; Altenburg, T., *Promoting Ancillary Industries in Developing Countries*, in: *Small Enterprise Development*, Vol.8 (1997), No.2.

¹⁴ See UNIDO, *Corporate Social Responsibility. Implications for Small and Medium Enterprises in Developing Countries*, Vienna 2002.

international competitiveness but sustaining and gradually upgrading their production. The contribution of such enterprises to poverty reduction objectives is at the fore and calls for targeted and customized support, combining managerial and technical skills upgrading.

- The large group of “typical” small-scale enterprises is important for a number of reasons, not the least of which is their function to serve as a seedbed for entrepreneurship and to allow a graduation of micro, informal enterprises into the formal economy and into sustained growth processes. Where they do not exist in sufficient numbers, we are faced with fragmented, dual economies – a phenomenon referred to as the “missing middle” in particular in many African countries. One proven approach to enhance the development potential of small-scale enterprises is the promotion of networking and the dynamization of under-performing enterprise clusters, often within a sectoral focus.¹⁵
- There are two UNIDO programmes that are cross-cutting, in that they can provide support for the full range of private sector enterprises. One relates to the enabling framework and institutional support, with the objective to improve the overall policy environment for the private sector and promote various types of public-private partnership mechanisms. Without an adequate enabling environment, it is difficult for any type of support programme to have much effect, so policy measures to improve industrial governance are particularly important. The second cross-cutting programme is information services the objective of which is to provide access to useful information to all private sector firms, to overcome the information failures that are particularly common in developing countries.

Quite obviously, the heterogeneity of the SME sector precludes any “one size fits all” support approach. Neglecting the very diverse needs and requirements, has been the cause of many failures of post support programmes.¹⁶

A more detailed explanation of the main UNIDO programmes in support of private sector development follows in the next Chapter.

¹⁵ See UNIDO, *Development of Clusters and Networks of SMEs*. The UNIDO Programme, Vienna 2001.

¹⁶ “Most SME programmes, especially in Latin America and Africa, still advocate indiscriminate assistance to SMEs...justified on the grounds of poverty alleviation....We need both types of programmes, poverty alleviation and competitiveness building...Both types of programme pursue different objectives and target different types of enterprises with different development potentials.” (T.Altenburg, in: UNIDO, *Supporting Small Business. Does It Make Sense?* Vienna 1999, p.9).

CHAPTER VII

Specific UNIDO Programmes for Private Sector Development

A. Programme 1: Cluster and Networking Development

Objective

Individual small enterprises are often unable to respond to market demand and compete in a globalized production environment. Groups of firms clustered together, on the other hand, are better able than isolated firms to grow rapidly, develop product niches, access export markets and offer new employment opportunities. Cooperation, together with specialization on the part of the firms, leads to collective efficiency and it enhances their ability to innovate processes and products. Moreover, the entire cluster becomes capable of competing against mass producers on a collective basis. In many developing countries, however, the move towards greater cooperation among cluster actors is not spontaneous. In these “underachieving” clusters, information flows uneasily, entrepreneurs rarely meet one another, do not have on-going relationships with providers of business development services and are not accustomed to presenting articulated calls for action to the local policy makers.

The objective of the UNIDO programme is to promote efficient systems of relations within clusters (that is among enterprises and between enterprises and institutions) thus enabling small enterprises to overcome their isolation and achieve collective efficiency and competitive advantage. Such promotion requires external assistance since relieving the burdens faced by under-performing clusters depends on activities (in the field of sensitisation, trust building, conflict resolution, etc.) that the private sector is unlikely to undertake. This is because their outcome is subject to a high degree of uncertainty. Moreover, when these activities are implemented in a cluster, their beneficial effect becomes available to all the local actors so that it is nearly impossible to ensure their private appropriation.

The programme has proven effective for poverty reduction when targeted at rural and/or handicraft producers, and for productivity enhancement, especially when targeted at growth-oriented larger SMEs.

Approach and Methodology

The UNIDO approach focuses on the following key aspects:

- Initiatives pertaining to vision-building and to the identification of a development objective for the cluster as a whole (e.g. workshops, presentations by national and international experts, study tours to more successful clusters, benchmarking, etc.) are aimed at reducing the distance among cluster actors, and they provide an opportunity to draw attention to a common agenda, to test the reliability and trustworthiness of its partners on a "fresh" ground.
- Initiatives pertaining to capacity building (e.g. training programs, joint learning workshops, presentation of best practices, creation of discussion fora, etc.) enable cluster actors to overcome traditional behaviour and to implement on their own common initiatives. The ultimate goal is to promote the emergence of an autonomous governance framework ensuring the continuation of a local development process after the completion of UNIDO's intervention.

The UNIDO methodology is based on a sequence of action steps:

- Since cluster development depends on its customisation to the needs and capabilities of the cluster actors, its implementation starts by gathering previously dispersed knowledge about the economic and social conditions of the cluster and its development potential, as well as the state of inter-firm relationships and the existing institutional support mechanisms. This is done through a diagnostic study, which is also an opportunity to get in touch with cluster actors and to present them with the principles of cluster and network development.
- The information derived from the diagnostic study provides the material to identify a development objective for the cluster. Such a vision is subsequently enshrined in a cluster action plan. All cluster actors are called to actively collaborate on this document (through ad-hoc workshops, one-to-one discussions, bilateral as well as multilateral meetings).
- The action plan envisages a range of initiatives aimed at increasing the degree of cooperation among the cluster actors and their capacity to realise the vision they agreed upon. A key step in such a direction is the development of small enterprise networks as well as the creation/strengthening of SME Associations. Capacity building at the cluster level encompasses the upgradation of the support framework by collaborating with suppliers of business development services to reorganize and often to broaden the range of services provided. The UNIDO approach relies upon a closer coordination among the various support programmes available in the cluster, based on their customisation to the needs of the local small enterprises.
- Finally, the UNIDO approach attaches a great deal of importance to capacity building at the policy level, so that the principles of networking and cluster

development are enshrined at the core of industrial policies targeting small enterprises. This is done through sensitisation and awareness building at the highest level (national policy makers, senior staff of support institutions and banks, etc.).

Coverage

The programme has been implemented through technical cooperation projects in developing countries such as Ecuador, India, Jamaica, Mexico, Morocco, Nicaragua, Pakistan, Senegal, Tunisia, and Zimbabwe. New projects are currently being developed for Ethiopia, Iran, and Viet Nam.

Illustrative Examples

Because of its focus on the upgrading of complex systems such as under-performing clusters, the UNIDO approach must be monitored at several levels (such as enterprises, networks, and support institutions). In the case of Nicaragua, where the impact of one such project initiated in 1995 has been evaluated, two clusters and 480 enterprises were assisted, leading to the establishment of 30 networks and the creation of 13 supply linkages (large/small enterprises). Participating enterprises benefited greatly, with increases in productivity ranging from 34% to 176%. Moreover, 30 brokers were trained and are now operational, and nine national institutions now promote cluster development.

In India, a Cluster Development Programme was launched in 1996 and has so far directly targeted seven clusters and approximately 800 enterprises in sectors as diverse as textiles, handicraft, leather, pharmaceuticals, and foodstuff. Its impact on beneficiary enterprises has been a significant increase in exports (approximately US-\$ 8 million), domestic sales/subcontracting (approximately 3.5 million), and investment (approximately US-\$ 8.5 million). Moreover, an estimated US-\$ 2 million worth of savings were triggered thanks to the introduction of technologies not previously available in the clusters. 63 firms have obtained ISO-related certifications and several hundred people participated in WTO-related workshops/presentations. Over 20 self-help groups and networks were either revived or created. The cluster approach is by now well enshrined in the Indian policies, with seven States and five national institutions having adopted cluster development in their support strategy for small enterprises. Over 150 cluster development practitioners have been trained in what has become a fully self-financing training programme.

Additional information on the Cluster and Networking Development programme is contained in the following publications:

“Development of Clusters and Networks of SMEs: The UNIDO Programme”
<http://www.unido.org/doc/4927>

“Industrial Clusters and Poverty Reduction”
<https://www.unido.org/en/doc/24736>

B. Programme 2: SME Export Consortia

Objective

Obtaining access to export markets is crucial for increasing SME growth and productivity, especially in light of increased globalization and market liberalization. SMEs in developing countries, however, face many constraints to competing effectively in these markets since they often lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce products in quantities and of a quality that are not adequate for foreign buyers. One effective way of addressing these problems is through the development of export consortia. Export consortia are voluntary groupings of enterprises, usually in the same or similar business or subsector, with the objective of improving the export readiness and increasing the export volumes of the participants. By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets.

The objective of the UNIDO programme is to foster developing countries' exports by enabling SMEs to overcome the information and scale problems associated with exporting activities, particularly in the early stages of exporting. By joining together to promote exports, groups of SMEs are able to effectively compete against other firms in markets that they would otherwise be unable to access. This programme is especially targeted at medium-sized enterprises, particularly those that are in the early stage of export. As a result, it is likely that the targeted firms will also be those that have the greatest immediate potential for growth, and therefore significantly impact economic growth of the country or region.

Approach and Methodology

The promotion of SME Export Consortia is a specialized form of SME networking development and the approaches used in both are similar. There is a mutually beneficiary relationship between clusters and consortia development. On the one hand, inter-firm cooperation among consortia members is greatly facilitated within clusters as explained under Cluster and Networking Development (Programme 1, above); on the other hand, export consortia often lead to a closer cooperation between firms of a particular region that may stimulate the development of a cluster. The UNIDO approach for SME Export Consortia development focuses on the following:

- Initiatives that improve the business environment for the establishment and operation of export consortia (workshops and study tours on export consortia to introduce policy-makers to the concept and to identify the role of different institutions; expertise to improve the legislative and policy framework for export consortia; expertise to develop appropriate incentive frameworks for export consortia) consist of capacity-building activities for institutions that promote or regulate export consortia.

- Initiatives that encourage the development of support institutions for export consortia lead to the widespread promotion of individual consortia and to improved practices in their establishment. Activities are directed towards private sector associations, export promotion agencies, chambers of commerce and industry, export specialists, local and regional development agencies, and similar organizations. The capacity of these organizations to promote and support individual consortia is developed through training, presentations by national and international experts, study tours, benchmarking, etc. to enable them to educate potential consortia founders on the benefits and procedures for establishing and operating consortia.
- Initiatives pertaining to individual export consortia management and organization are directed at the founders and managers of consortia. Through publications, training programs, joint learning workshops, presentation of best practices, creation of discussion fora, and the use of consortia promoters, UNIDO supports demonstration projects that show that consortia participants are able to overcome mistrust and undertake cooperative activities that benefit all the consortia members.

Coverage

The programme is being implemented or planned in many countries, such as in Argentina, Egypt, India, Jordan, Lebanon, Morocco, Peru, Tunisia, and Uruguay.

Illustrative Examples

Since 2001, UNIDO in cooperation with the Tunisian Ministry of Industry has been promoting export consortia. There are currently 10 operational export consortia specialized in different sectors (i.e. auto parts, engineering, agro-industry, information technology etc.). Most of these consortia have been targeting Arab and African countries as these markets are considered to be more accessible (e.g. similar business culture, customer's preference, language, legislation, etc.). The "C8" auto part export promotion consortia, grouping 8 Tunisian manufacturing companies, has conducted several studies of African markets, and organized joint missions and shipments to selected African countries. In the last three years the export sales of the consortium members have increased by 67% against 30% of the whole Tunisian car components sector. The Tunisian Engineering Consortium, grouping 12 firms with no export experience, has been able to win important international bids in Algeria and West African countries. The consortium has also signed cooperation agreements with Iranian and South African partners. These two consortia are now becoming more confident to access more challenging markets in northern countries. Efforts to promote export consortia are now undertaken by a variety of national institutions such as the export promotion agency, chambers of commerce, technical centers and other private sector associations as well as export promotion specialists. Specific incentives for promotional activities undertaken by consortia are granted by the FAMEX (Market Access Facilitation Fund). Legal requirements for accessing the "National Competitive Fund" have been simplified in the case of export consortia.

Until three or four years ago, consortia as a tool for business development were almost unknown to Indian SMEs. Thanks to the efforts of UNIDO, the Ministry of Small Scale Industry, the State Bank of India, the Textiles Committee, the Coir Board, the Government of Kerala, the Department of Commerce and the Entrepreneurship Development Institute, there are approximately 350 consortia (i.e. SME networks which have been legally registered or incorporated). Most of them are engaged in several activities, relating both to backward and forward linkages such as common purchase of raw material, promotional activities, and setting up of common facilities. For most consortia, joint export promotion is an important activity or is planned to become one. Of the estimated 350 consortia, 30 are “pure” export consortia with the main objective being the export promotion of the members’ goods and services through joint actions. Two federations of export consortia have been created: the Association of Bangalore Machine Tool Consortia (ABMTC) including 8 consortia; and the Kerala Federation Of Industrial Clusters (Kochi), which groups 6 consortia from different industries (plastic, rice mills, ready made, tread rubber). The Government of Kerala has adopted an incentive policy for consortia called 'Common Corporate Entities' under its cluster development approach. It provides loans and grants for a range of activities. In 2004 the Ministry of Small Scale Industry has launched a scheme to facilitate consortia formation. So far, 15 SSI consortia have been established in different parts of the country through this scheme.

Additional information on the SME Export Consortia programme can be found at: <http://www.unido.org/clusters>.

C. Programme 3: Promotion of Corporate Social Responsibility (CSR) and Business Partnerships

Objective

The issue of corporate social responsibility (CSR) is gaining significant importance in industry and international trade. Issues such as general globalization dynamics associated with growth in competition, increased size and influence of transnational corporations, retrenchment of government and its roles, growth of global civil society activism and an increased importance of intangible assets in industry are leading to the emergence of a proactive approach to CSR in the private sector, as well in the developing world. Companies are recognizing increasingly that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term market success.¹⁷

In a macroeconomic context, the process of upgrading the private sector towards increased competitiveness in the developing world is, in many cases, accompanied with high social costs: continuous unemployment, corruption, environmental degradation, little or no social protection and health care. CSR is seen as the way in which companies can

¹⁷ See Luetkenhorst, Wilfried, Corporate Social Responsibility and the Development Agenda. The Case for Actively Involving Small and Medium Enterprises, in: *Intereconomics*, May/June 2004, pp.157-166.

contribute to overcoming these obstacles to development and to mitigating the social costs of modernizing the industrial sector, thereby becoming 'responsibly competitive'.

Responsible competitiveness occurs when an economy's productivity and overall competitiveness is enhanced by businesses taking explicit account of their social, economic and environmental performance.

Approach and Methodology

It is within this context that UNIDO has formulated its approach for the promotion of CSR as a means towards increased productivity and competitiveness of developing economies. In order to achieve this objective, the UNIDO Programme is built on three pillars: its participation in the UN Global Compact, the CSR Capacity-building Initiative and the Business Partnership Programme.

(a) UN Global Compact

The UN Global Compact is an effort initiated by the Secretary-General of the United Nations, encouraging corporations to exercise Corporate Social Responsibility (CSR) by adhering to ten principles drawn from international conventions or declarations on conditions of work, respect for human rights, the protection of the environment and fighting corruption. In 2003, UNIDO became the fifth core UN agency in the Global Compact.

UNIDO participation in the Compact is motivated by the need to meet the specific needs of SMEs.¹⁸ The Organization's association in connection with the SME sector is a result of the recognition awarded by the UN system to the Organization's prior operational efforts in developing partnerships through its: business partnership programme (www.unido.org/business-partnerships); Investment and Technology Promotion Network (www.unido.org/itpo); SME cluster development programme (www.unido.org/clusters); and the Subcontracting and Supply Chain Management Programme (www.unido.org/spx). In addition, UNIDO has spearheaded UN system activities in supporting environmentally and socially responsible entrepreneurship, at the operational level (through its training programmes, support tools for enterprise-level environmental management and through the UNIDO/UNEP network of National Cleaner Production Centers (NCPCs [www.unido.org/cp])).

b) CSR Capacity-building Initiative

In order to promote the CSR agenda in developing countries in a comprehensive manner, this programme focuses on establishing a platform, which provides practical services in relation to the implementation of CSR concepts at the policy, institutional and company levels. More concretely, the programme has the following objectives:

- Articulation of the business case for CSR within the specific country context;

¹⁸ UNIDO (2004), Survey of Small and Medium Enterprises in the Global Compact, Vienna.

- Expansion of national networks of companies committed to specific CSR initiatives;
- Acquisition of national and international know-how and forging of partnerships to further develop and deepen the CSR agenda;
- Formation of platforms for public-private policy dialogue on establishing national (voluntary) norms and removing impediments to the expansion of CSR;
- Inter-country exchanges of experience and mutual learning by participating companies and institutions.

The core of the programme, which is to be seen as an umbrella programme for UNIDO's work on CSR, is the establishment of CSR Resource Centres in the country concerned. These Centres would:

- Be located as adjuncts to the existing network of relevant institutions, e.g. business organizations, chambers of commerce, national cleaner production centres and the like, which have long been promoting environmental conservation measures in the manufacturing sector of several countries. The support offered by the CSR Centres would enable the business sector to access CSR resources and capabilities that add to environment related initiatives;
- Provide tangible or virtual resources to participating SMEs to help them innovate and develop CSR approaches.

c) UNIDO Business Partnership Programme

The needed improvements for SMEs to integrate into global value chains and the application of CSR concepts do not happen by themselves. Practical assistance is required not only at the technical and managerial level but also to proactively support the linkage between large corporations and small suppliers and their integration into national and global value chains. Within this framework, the business partnership programme, by integrating public and private sector stakeholders, provides technical assistance to SMEs and related institutions, enhancing their capacity to apply and implement CSR concepts in the context of responsible competitiveness. The programme fortifies national or international business partnerships, among larger companies and between larger and smaller companies, in order to develop CSR-based business strategies.

Coverage

So far, technical cooperation projects have been implemented in developing countries and economies in transition such as Croatia, Ghana, India, Morocco, Nigeria, and South Africa. New projects are currently being developed for Nicaragua, Tanzania and Viet Nam.

Illustrative Examples

In India, UNIDO initiated a multi-stakeholder business partnership programme in the automotive component industry in 1999. The programme, involving a wide range of public and private sector participants from India and abroad, provided small manufacturers with cutting-edge technical assistance. After only one year, substantial technical improvements were made and heightened awareness of modern manufacturing methods, with a focus on waste elimination in the production process, was created, thereby improving the overall competitiveness of the enterprises concerned.

In South Africa, UNIDO is implementing a similar project, yet with a strong emphasis on previously disadvantaged SMEs, supporting the Governments' black economic empowerment programme.

In Morocco, UNIDO cooperated with a chemical transnational corporation in a project that establishes a comprehensive yet easy to apply eco-efficiency analysis tool for small enterprises in developing countries. The ultimate goal is to help these enterprises to assess and improve the environmental performance of their products and production processes with regard to international benchmarks.

In Nigeria, UNIDO is supporting the Federal Government to promote local production of two- and three-wheelers, eventually providing low cost motorized transport mainly in rural areas, while limiting their environmental impact. The objective of the programme is to strengthen technological capacities in local small enterprises, so that they can become part of the supply chain for simple but environmentally sound motor vehicles, produced in Nigeria. Within this partnership, UNIDO is working closely with large international producers of two- and three-wheeler vehicles for the integration and application of technological and managerial world-class know-how within the industry.

In Croatia, UNIDO is implementing its first policy advisory project on CSR. The project focuses on building necessary CSR-related capacity in Croatia so that industry support institutions can assist the business sector, especially export-oriented SMEs, to use a practical methodology and related tools that will enable them to cost-effectively comply with CSR requirements of global buyers and supply chains.

More information on the UNIDO Corporate Social Responsibility and Business Partnership Programme is contained in:

“Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries”

[_https://www.unido.org/doc/44511](https://www.unido.org/doc/44511)

“Integrating SMEs In Global Value Chains: Towards Partnership For Development”

<https://www.unido.org/doc/4865>

“Corporate Social Responsibility and the Development Agenda: Should SMEs Care?”

<https://www.unido.org/en/doc/29502>

“Partnerships for Small Enterprise Development”, a joint UNDP-UNIDO publication
<https://www.unido.org/en/doc/44527>

“Sustainable Supply Chains” - The Global Compact Case studies series
<https://www.unido.org/doc/42222>

D. Programme 4: Rural and Women Entrepreneurship Development and Human Security

Objective

The vast majority (some 80%) of the poor live in rural areas and the disparities between rural and urban areas are widening. The majority of the poor are women, and a wide gap exists between men and women in accessing productive resources and opportunities. Inequality is a major obstacle to growth.

The objective of the Rural and Women Entrepreneurship Development Programme, therefore, is to increase UNIDO's contributions to poverty reduction, particularly focusing on decentralized and rural development and gender equality by improving a business environment and providing specialized human resource development on entrepreneurship that enables rural and women entrepreneurs to take advantage of economic opportunities based on market mechanisms and entrepreneurial initiatives.

Furthermore, the Programme places special emphasis on assisting those affected by crisis situations. Any crisis situation seriously damages a country's physical infrastructure and greatly reduces its capacity to invest in socio-economic development which particularly affects rural and women entrepreneurs. To support entrepreneurial initiatives in crisis situations requires extensive interaction with target population, community and private/public sector as well as an in-depth analysis of the needs of affected communities. This approach is fully in line with the human security concept which has become one of the major guiding principles of international development assistance.

Approach and Methodology

The institutional and physical infrastructure as well as socio-economic environment in rural areas within and between countries is not uniform. No single blue-print methodology is applicable as a solution.

While utilizing experience from international best practice, generic tools and assessed theoretical foundations, the methodology combines them with indigenous and local, culture-specific knowledge in order to develop tailor-made solutions. These have to respond to the absorptive capacity of the local population and institutions.

The approach of the Programme is to a) strengthen the capacity of public administration in the rural provinces to improve market mechanisms, particularly aimed at reducing barriers

affecting rural and women entrepreneurs, b) promote an advocacy role and collective self-help functions of business associations to enhance private sector solutions, and c) develop competitive entrepreneurial capabilities through technical and managerial training.

The technical cooperation projects apply UNIDO methodologies, tools and manuals, which are being adapted to suit the specific country cases. These include "Village Industry Promotion Package for Entrepreneurship Development", "Small Business Advisor's Industrial Extension Manual", "Manual on Organizing Self-Help Entrepreneurial Groups", "Essentials for Managing an Association", "Training Packages for Women Entrepreneurs in Food-processing Industries", "Entrepreneurship Curriculum Package", and others.

The approaches of the Programme, i.e. locally specific, gender-sensitive and tailor-made solutions, require a close collaboration with other local and international development partners working on such issues as education, health care, human settlements and peace building, in order to create impact by analyzing the causes of specific constraints and applying solutions that the local stakeholders can implement on a sustaining basis. Therefore, one of the important principles of the Programme is an "open architecture" for design and implementation. Jointly designing interventions and working together with other partners allows the Programme to offer effective support activities that are appropriate for the prevailing local social systems and already existing local initiatives.

Coverage

Technical cooperation within this programme focuses on Least Developed Countries, Sub-Saharan Africa and countries with special conditions, such as the existence of pockets of poverty, disadvantaged ethnic groups, conflict zones etc. The majority of recipient countries in Africa presently include Burkina Faso, Burundi, Cameroon, Cote d'Ivoire, Eritrea, Ethiopia, Ghana, Guinea, Kenya, Malawi, Morocco, Mozambique, Namibia, Rwanda, Sierra Leone, and Uganda. Recipient countries elsewhere include Afghanistan, Cuba, Guatemala, Jordan, Philippines, Timor-Leste, Solomon Islands, Sri Lanka, Vietnam.

Illustrative Example

In Mozambique, a "One-Stop-Shop" for license issuing has been established as a part of a provincial government office. It also provides advice to entrepreneurs on regulatory requirements for starting up, operating and expanding business. As a result, bribery has decreased, the registration process has become transparent and efficient, actual registration of enterprises has increased and tax revenue has increased. The central government has decided to replicate it to all the provinces. In Vietnam, trainers for women entrepreneurs have been trained in food processing and have supported micro and small businesses in the Northern and Central provinces, integrating entrepreneurship development and training in food technologies. In Uganda, a successful Master Craftsman Programme has been implemented and an Entrepreneurship Training Curriculum has been developed for secondary schools. Over 18,000 students are taking the course annually, as a part of compulsory requirements. The experiences of Uganda are being replicated to

other countries including Mozambique and Timor-Leste.

Additional information on the Rural and Women Entrepreneurship Development programme is contained in:

“A Path Out of Poverty: Developing Rural and Women Entrepreneurship.”
<https://www.unido.org/en/doc/13220>

“Women Entrepreneurship Development in Central Vietnam”
<https://www.unido.org/doc/43148>

“Bottom-up growth strategy” (CD-ROM)

E. Programme 5: Information Services

Objective

Besides capital and labour, information is an important input to the production process. It is, therefore, crucial that small enterprises have access to information that can support their business, in particular with respect to supply of raw materials, markets, business environment and regulations, as well as information to improve internal business processes. Easy access to reliable information is, therefore, essential for small enterprises to become competitive and grow. The cost-effective provision of relevant business information is the objective of this UNIDO Programme

Approach and Methodology

In most developing countries, although business information is often available in the country, it is provided by a number of national institutions on an ad-hoc basis, lacking integrated solutions to solve the needs of small enterprises. Value-added information services that could provide the necessary integrated solutions are often not available, or not at affordable prices. Many markets in the developing countries miss the incentives to develop small enterprise information services due to low demand. The latter is partly caused by a lack of awareness of the value of information.

International business information, often available via the Internet, is increasingly important, in particular with respect to sourcing new technologies, opening new markets, improving quality and standards, exploring investment and financing and other business opportunities. But it is not enough to have an Internet connection; it is essential to be able to identify and verify the reliability of the information and process it into a solution, i.e. assess and apply it to a problem, so a small enterprise can act on it.

For a small enterprise to function efficiently and effectively, it needs support from an information intermediary or *infomediary*. The function of the infomediary is to network all national and international sources of information into one focal point, into a one-stop-shop (OSS). Based on its “network potential”, the infomediary would be able to provide

an integrated solution in the form of value-added services. Since small enterprises are willing to pay for demand-driven services that are tailor-made to their particular situation and needs, the services can be provided on a commercial basis. The latter is essential for the sustainability of the services.

UNIDO assists with the establishment of such infomediaries. UNIDO's role is that of an impartial facilitator, bringing together public and private sector organizations, and its own experience with other successful networking initiatives. Linkages to other countries, where these capacities have been set up, encourage information exchange among developing countries in particular with respect to applying and disseminating new technologies. The technical cooperation programme of UNIDO to set up a national information network, follows four successive steps:

- A national needs assessment study to identify what is available and what is missing in terms of information and value-added services for small enterprises;
- Based on the outcome of the needs assessment, UNIDO would assist with the formulation of a commercial business plan to establish a national OSS;
- After discussing the plan with the stakeholders, a programme will be formulated for capacity building of the OSS (in particular training requirements) within a national network of information sources;
- Finally, the programme will be extended into rural areas to serve regional clusters of small enterprises through rural information centers

Coverage

UNIDO has various OSSs at advanced stage of development, such as Sri Lanka – Industrial, Technology and Market Information Network (ITMIN), Uganda – the Uganda Business Information Network (UBIN). Furthermore, information networking initiatives are on-going in Algeria, Djibouti, China, Cuba, Guatemala, Madagascar, Morocco, Pakistan, Saudi Arabia, Tanzania.

Illustrative Example

In Uganda the programme started with the establishment of a national OSS in Kampala as part of the Uganda Business Information Network (UBIN). The services of this central OSS are extended to eight rural districts of Uganda through a sustainable network of eight pilot District Business Information Centres (DBICs), which are supported by the backbone of UBIN in Kampala. The network would enable MSMEs in areas outside Kampala to make use of information and ICT support services. Since each DBIC is to be functioning independently, tailor-made business plans have been formulated, based on local need assessments studies and inputs from local stakeholders. The sectors that have been focused on are food processing, leather, textiles, coffee and fish, thereby fully synergizing with the focus sectors of UNIDO's Integrated Programme in Uganda.

Additional information on this programme can be found in the publication:

“Capacity-building for Business Information Networking: The UNIDO Support Programme” <https://www.unido.org/en/doc/18761>

F. Programme 6: Enabling Framework and Institutional Support

Objective

The business environment (BE) in which SMEs operate is often not conducive to their growth and competitiveness. A biased policy framework on the one hand, typically coupled with lacking or inappropriate institutional support systems and mechanisms on the other hand have since long been identified as key factors preventing SMEs from fully mobilizing their development potential. Biases regularly arise from policies that do not take account of SME-specific constraints putting these firms at a disadvantage compared to large enterprises, and from overly complex regulatory set-ups that represent a disproportionate burden (market entry and exit constraints, high transaction costs) on small and medium operators.

Against this background, through a combination of advisory and capacity building services, the Programme seeks to strengthen national capacities towards the creation and continuous upgrading of a business environment that would allow SMEs to make a greater contribution to growth, employment, and income generation. Assistance under the Programme is thus geared both to the *formulation* and - increasingly so - to the *implementation* of policies and policy measures aiming for an SME enabling framework. Support is further provided towards the design and development of an institutional infrastructure better suited to help SMEs operate in a level playing field.

Approach and methodology

The elaboration of a coherent policy, regulatory and institutional framework conducive for the growth of SMEs begins with the conduct of thorough diagnostics. Policies directed at and/or impacting upon the private sector in general are assessed in some detail as is the degree to which these are supportive of private industry and SMEs in particular. Findings will then be consolidated into an SME policy framework, supplemented by specific policy and other action recommendations for follow-up by relevant public and private stakeholders.

The varied nature of SME-related policies and institutions with a potential to accelerate small business development is reflected in the wide range of services that the Programme can provide. Such services in the recent past have placed emphasis on:

- Design and creation of SME-supportive legal and regulatory systems, including the streamlining of related administrative requirements and procedures;
- Facilitation and/or moderation of, as well as capacity-building on, public-private sector dialogue for policy formulation and implementation, covering national and sub-national policies, strategies and programmes in support of SME development;
- Appropriate institutional arrangements for the implementation and monitoring of

SME policy measures and support programmes;

- Capacity-building of business membership organizations (BMOs), in particular chambers and business associations, in a holistic manner, ranging from sound internal management to services delivery and to policy advocacy functions;
- Sustainable business development services (BDS) by private and public institutions, such as business counselling, referral, loan packaging and training;
- Specific policies for SME development to facilitate access to crucial resources such as finance and information, and to stimulate a more balanced geographic distribution of business activities.

Coverage

Projects addressing the SME enabling framework and institutional support issues have of late been or are being undertaken, in, inter alia, Azerbaijan, China, Kazakhstan, Kyrgyzstan, Lao PDR, Uzbekistan, and Vietnam.

Illustrative Examples

UNIDO support to the Ministry of Planning and Investment (MPI) in Vietnam, initiated in the second half of the 1990s, paved the way for and contributed to the drafting of the Government Decree on the SME Promotion Policies and Structures. It also created awareness of the need for an institutional infrastructure for SME promotion in Vietnam. A follow-up project assisted in defining the requisite institutional setup, objectives and core activities including the preparation of specific SME support programmes. UNIDO support during the subsequent implementation phase focused on assisting the government in the start-up activities of SME development entities at both national and provincial levels, notably the Agency for Small and Medium Enterprise Development (ASMED) and the SME Development Promotion Council (SMEDC) at the national level, as well as in the initiation of linkages with a network of provincial gateways. Overall, this capacity building project contributes to the strengthening of knowledge and information bases and facilities that will support the formulation and implementation of SME policies and programmes. Work also includes the launching of a variety of promotional activities with a view to improving perceptions of entrepreneurship and enterprise.

In 2005, ASMED, under the guidance of the SME Development Promotion Council, successfully led a highly participatory process involving 21 SME Task Groups constituted by Ministries, Provinces and 34 Business Associations to formulate the 5-year SME Development Plan 2006-2010 and an Action Plan for Implementation. The Council is expected to submit the Plan, *the first of its kind*, to the Prime Minister for approval by the end of 2005.

Among the facilities currently supported by UNIDO is an SME Information Portal that will enable information flows from the SME community to the government and from the government, support institutions and development partners to the SME community.

Hence in Vietnam, UNIDO's assistance gradually moved from direct policy advice towards 'institutionalizing' SME policy development and implementation through the

strengthening of sustainable organizations and structures capable of developing and monitoring SME policies over a longer term.

A review of the policy environment faced by manufacturing SMEs in Shaanxi Province, China, formed an integral part of a more comprehensive policy study carried out for the country's National Development and Reform Commission (NDRC) in 2004/05. Focusing on the reasons for the lagging competitiveness of industry at large in China's western regions compared to its coastal provinces, the intervention offered detailed recommendations for policy-makers at central, provincial and local levels for the accelerated improvement of the business environment for manufacturing enterprises in general and for the rapidly rising number of privately operated SMEs in particular. Several of the recommendations made were taken account of in the preparation of China's 11th Five-Year Development Plan (2006-2010).

A programme in support of a range of BMOs, notably chambers of commerce and industry as well as business associations, is about to be launched in 2006. Initially foreseen to involve three to four developing countries – with a focus on LDCs – the intervention seeks to address novel challenges that BMOs face in the global economy. The overall objective would be to break the existing vicious circle of low attractiveness of BMOs for enterprises leading to a small membership, an insufficient revenue generation and hence a weak financial base, limiting, in turn, the scope for providing effective advocacy and business services, in particular for SMEs which in the developing countries are often left without a voice. The intervention has not last been triggered by pertinent changes in the operating environment of SMEs in recent years, such as the ongoing overall shift in the delivery of business development services (BDS) from the government to the private sector, and the need to bridge a widening development and/or performance gap between BMOs at national and sub-national levels, thus showing an analogy to the capacity differentials to be found likewise on the government side.

Additional information on SME enabling framework and institutional support is contained in the following documents:

“Effective Policies for Small Business: a Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development”, a joint OECD-UNIDO publication, <https://www.unido.org/en/doc/33172>

“Western China: Enhancing Industrial Competitiveness and Employment”
<http://www.unido.org/en/doc/4530>

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