

United Nations Conference on Trade and Development

**IMPROVING THE COMPETITIVENESS OF SMEs
THROUGH ENHANCING PRODUCTIVE CAPACITY***

***Proceedings of Four Expert Meetings**



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Preface

Small and medium-sized enterprises (SMEs) are important agents of development throughout the world. Promoting a country's SME sector plays a crucial role in maintaining high employment and income generation and is therefore critical for achieving sustainable growth.

The process of globalization, characterized by fundamental changes in the organization of global production, rapid advances in information and communication technologies (ICTs), and the emergence of multilateral agreements, is significantly changing the international environment. New opportunities have opened up but at the same time new problems and threats have raised new challenges for policy makers in developing countries.

As already mandated by the Bangkok Plan of Action (adopted by UNCTAD X in February 2000) and reaffirmed in the São Paulo Consensus, adopted by UNCTAD XI in June 2004, UNCTAD should assist developing countries in improving the competitiveness of their domestic productive sector. In particular, stimulating the development of SMEs and identifying ways and means for domestic SMEs to meet international standards is vital to enable them to become competitive on global markets.

To this end, UNCTAD has organized four Expert Meetings to discuss specific topics that are considered critical for SME development. The present publication is a selection of papers that were presented during those four meetings and gives an overview of the main issues discussed. Each chapter consists of an issues paper prepared by the UNCTAD secretariat as well as of a selection of national case studies that complement theory with relevant cross-country experiences. The sections end with a summary of conclusions and recommendations by experts.¹

The meetings were organized around the following four main topics:

- **TNC-SME Linkages**

The aim of the Expert Meeting on "The Relationship between SMEs and TNCs to Ensure the Competitiveness of SMEs", held from 27 to 29 November 2000 in Geneva, was to identify how TNC-SME linkages can be mutually beneficial for both TNCs and SMEs, to analyse the determinants of beneficial linkages, as well as to formulate policy recommendations targeted at the creation of strong inter-firm relationships.

The Meeting was organized based on the observation of the increasing tendency of TNCs to source production inputs globally, a trend that suggests that much of the future SME activities will be situated around such TNC production networks.

The national case studies from the Philippines, Venezuela and Ghana provide detailed insights into policies and measures implemented with the purpose of creating beneficial inter-firm cooperation that positively impacts local SME development.

One of the main conclusions reached during that meeting is that the creation of mutually beneficial TNC-SME linkages critically depends on the combination of factors, among which: a host country's overall policy environment; the corporate strategy of TNCs; the availability of local suppliers with competitive costs and quality; as well as on the contributions of the international community.

¹ Full reports of all issues covered in the individual meetings can be downloaded from the UNCTAD homepage www.unctad.org/meetings under the link Commission on Enterprise and Expert Meetings.

- **Financing Technology for SMEs**

The Expert Meeting on “Improving the Competitiveness of SMEs through Enhancing Productive Capacity: Financing Technology”, held from 28 to 30 October 2002 in Geneva, sought to identify possible innovative ways for financing SMEs.

Financing of productive capacity is central to any development strategy, but access to finance is still often restricted. This Expert Meeting considered national policies and programmes that governments could consider to facilitate access to different sources of financing.

In most developing countries banks are the main suppliers of finance. In some, venture capital is becoming increasingly important, particularly for high-technology SMEs. The case studies of China, Ireland and Nigeria illustrate the usefulness of policies and measures implemented by governments to further facilitate access to finance for SMEs.

- **Technology Development and Mastery**

The Expert Meeting on “Policies and Programmes for Technology Development and Mastery, including the Role of FDI”, held from 16 to 18 July 2003 in Geneva, sought to analyse policies and programmes that governments adopted for upgrading SMEs technological capacities.

So far, only a handful of developing countries – mostly located in South-East Asia – have managed to narrow the “technology gap” vis-à-vis developed countries. The studies on Italy, Mauritius and Indonesia illustrate examples where technology has been adapted and utilized remarkably well.

One of the key findings of this meeting was that the drivers for technology development (such as skills development, research and development capabilities, ability to attract FDI, strengthening local enterprises, infrastructure etc.) are closely interrelated. Therefore governments cannot afford to neglect any of the key drivers for technology if they wish to create a virtuous circle for technological development.

- **Promoting SMEs Export Competitiveness**

The Expert Meeting on “Promoting the Export Competitiveness of SMEs”, held from 8 to 10 December 2004 in Geneva, examined different patterns of internationalization of SMEs through exports, and discussed policies and measures that could help strengthen the export competitiveness of SMEs in developing countries. Special attention was devoted to business linkages between SMEs and TNCs, which are increasingly perceived as a way for SMEs to gainfully integrate into the global economy.

The meeting was organized based on the fact that even though SMEs represent the bulk of production, the share of SME exports in many countries still remains marginal.

It was agreed that there is a need to further facilitate SMEs’ access to international markets. The vulnerability of SMEs depends largely on their position in global production networks. The businesses suffering the most from new market conditions are generally those involved in activities at the bottom of the value chain, while enterprises involved in the finalization of products have much higher chances of succeeding.

Case studies on Malaysia and Egypt serve as examples of countries where TNCs, governments and global linkages programmes have demonstrated success in preparing and positioning domestic SMEs to export their products around the world. The case study on

Egypt, for example, gives a detailed overview of the efforts undertaken by different institutions to boost the share of SME exports in the country.

The Expert Meetings confirmed the consensus that emerged during the 1990s on the need for a flexible combination of State intervention and functioning of markets, a finely tuned mix of macro- and micro-policies and public-private partnerships in order to create a dynamic SME sector. As stated in the São Paulo consensus, “building productive capacities and enhancing international competitiveness requires a collective and coherent effort, primarily by the developing countries concerned, but also by home countries, investors and the international community” (para 42).

A handwritten signature in black ink, appearing to read 'Carlos Fortin', with a stylized flourish at the end.

Carlos Fortin
Officer-in-Charge of UNCTAD
February 2005

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By the UNCTAD Secretariat

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